
Department of Economic Development: Evaluation of Tax Credit Programs

*Prepared for the Committee on Legislative Research
by the Oversight Division*

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TABLE OF CONTENTS

| | |
|--|---------|
| COMMITTEE ON LEGISLATIVE RESEARCH | ii |
| LETTER OF TRANSMITTAL | iii |
| CHAPTER 1- INTRODUCTION | page 1 |
| CHAPTER 2 - FISCAL ACCOUNTABILITY | page 14 |
| Differences Exist in Amounts Reported | |
| No Reconciliations Performed | |
| CHAPTER 3 - COMPLIANCE ISSUES | page 16 |
| New or Expanding Tax Credit Programs | |
| Assistance Not Consistent | |
| Underutilization of Export Finance Fund | |
| Monitoring, Reporting, Verification, Cost Benefit Analysis Not Completed | |
| Seed Capital Program | |
| CHAPTER 4 - OUTSIDE COMPENSATION | page 28 |
| Potential Conflict of Interest | |
| CHAPTER 5 - CONCLUSION AND RECOMMENDATIONS | page 30 |
| APPENDIX 1 - Schedule of Tax Credits Approved | |
| APPENDIX 2 - Schedule of Tax Credits Claimed | |
| APPENDIX 3 - Agency Responses | |
| APPENDIX 4 - Department of Economic Development Supplemental Information | |

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THE COMMITTEE ON LEGISLATIVE RESEARCH, Oversight Division, is an agency of the Missouri General Assembly as established in Chapter 23 of the Revised Statutes of Missouri. The programs and activities of the State of Missouri cost approximately \$13 billion annually. Each year the General Assembly enacts laws which add to, delete or change these programs. To meet the demands for more responsive and cost effective state government, legislators need to receive information regarding the status of the programs which they have created and the expenditure of funds which they have authorized. The work of the Oversight Division provides the General Assembly with a means to evaluate state agencies and state programs.

THE OVERSIGHT DIVISION conducts its reviews in accordance with government auditing standards set forth by the U.S. General Accounting Office. These standards pertain to professional qualifications, the quality of effort and the characteristics of professional and useful reports.

THE COMMITTEE ON LEGISLATIVE RESEARCH is a permanent joint committee of the Missouri General Assembly comprised of the chairman of the Senate Appropriations Committee and nine other members of the Senate and the chairman of the House Budget Committee and nine other members of the House of Representatives. The Senate members are appointed by the President Pro Tem of the Senate and the House members are appointed by the Speaker of the House of Representatives. No more than six members from the House and six members from the Senate may be of the same political party.

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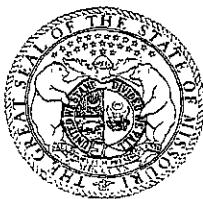
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June, 1999

Members of the General Assembly:

As authorized by Chapter 23, RSMo, the Committee on Legislative Research adopted a resolution in May, 1998 directing the Oversight Division to perform a program evaluation and expenditure review of the Department of Economic Development Tax Credit Programs which included the examination of records and procedures in the Department of Economic Development to determine and evaluate the tax credit programs performance in accordance with program's objectives, responsibilities, and duties as set forth by statute or regulation.

The accompanying report includes Oversight's comments on internal controls, compliance with legal requirements, management practices, program performance and related areas. We hope this information is helpful and can be used in a constructive manner for the betterment of the state program to which it relates.

Respectfully,

A handwritten signature in black ink, appearing to read "Robert M. Clayton III".

Representative Robert M. Clayton III
Chairman

Chapter I - Introduction

The Joint Committee on Legislative Research directed the Oversight Division to conduct a program evaluation and expenditure review of the Department of Economic Development's (DED) tax credit programs. The evaluation and review had the following components: to determine the effectiveness of the tax credit programs, the benefits of the program in relation to expenditures, the goals of the tax credit programs, the development of indicators by which the success or failure of a tax credit program may be gauged, the conformity of the tax credit programs with legislative intent, and the impact of any federal grant programs on the tax credit program.

Background

The Department of Economic Development (DED) is composed of groups which execute statutory requirements and department policy in the areas of economic development, regulation of businesses and financial institutions, and professional registration. The economic development divisions and programs of the department are the Economic Development Groups - Business Development, Business Expansion and Attraction, Community Development, and Workforce Development, the Missouri Development Finance Board, and the Missouri Housing Development Commission.

In 1997, DED implemented an extensive internal restructuring plan which resulted in the formation of four main groups to administer the programs of the department designed to increase Missouri's economic prosperity. These main groups are Business Development, Business Expansion and Attraction, Community Development, and Workforce Development. These groups work with local communities to help firms create jobs, increase sales, find and train qualified workers, identify sites and obtain financing support to locate or expand in Missouri as well as promote capital investment and the self-sufficiency of communities in the state.

Business Development Group

Helping Missouri's existing business create more wealth is the primary mission of the Business Development Group. A wide array of assistance is available through this group to help businesses experience growth in sales and increased investment in their operations. The group administers a number of special programs to increase

private investment in Missouri's small businesses, incubators, and research activities. State tax credits are offered to individuals or companies who invest in these activities, providing an immediate return on that investment. These tax credits have also been used to create Certified Capital Companies that will provide early to medium-stage investment to new and expanding Missouri businesses.

Business Expansion and Attraction Group

The purpose of the Business Expansion and Attraction Group is to work in partnership with Missouri communities and businesses to assist the expansion of existing business and the attraction of new business to Missouri. Major outcomes to be achieved by this group are the creation of new jobs, investment in new business facilities, and raising the incomes of Missourians who obtain the new jobs created by those activities. The group works with the state's businesses, private-sector financial community, public institutions, and private investors to generate attractive financing packages for new development in the state. A variety of public-sector financing programs, working with financing from private institutions, can provide funds for land acquisition, construction, renovation, machinery, equipment, and working capital at favorable rates and terms. In addition, the group works with the Missouri Development Finance Board to make the board's financing programs available to businesses and communities throughout the state. The group also is responsible for administering tax credit programs for new and expanding business facility tax credits and enterprise zone tax benefits. The group prescribes the method for claiming earned tax benefits, approves/disapproves all claims for tax benefits, and certifies to the Department of Revenue that the taxpayer is eligible to claim the tax benefits. The group helps new and expanding businesses train workers needed to fill new jobs and helps existing businesses retrain workers to meet the needs of the workforce.

Community Development Group

The mission of the Community Development Group is to increase the economic self-sufficiency and prosperity of Missouri communities and neighborhoods. Members of the group achieve this result by offering local leaders programs to promote community investment, planning, and leadership development. The group administers the neighborhood assistance tax credit program designated for the betterment of communities and neighborhoods. The program provides a tax credit incentive to encourage business participation in community development projects operated by not-for-profit organizations in areas such as crime prevention, community services, physical revitalization, job training, economic development, and education. The group also administers the youth opportunities and violence prevention program specifically directed toward programs which are designed to

prevent youth from engaging in violent behavior and enable youth to improve themselves through education, job training, and apprenticeship activities. The tax credits are given to businesses and individuals contributing to an approved project undertaken by either a public or private organization.

Workforce Development Group

The Workforce Development Group is responsible for administering the Missouri Job Development Fund that is part of the Missouri Customized Training Program. The fund provides assistance for new or expanding industries for the training, retraining, and upgrading of the skills of potential employees and provides assistance under the basic industry retraining program for the retraining and upgrading of existing employees' skills. The group has agreements in place with the Department of Elementary and Secondary Education and local private industries to administer the program locally.

Missouri Development Finance Board

The Missouri Development Finance Board administers a range of financing programs for Missouri businesses, local governments, and state agencies. Originally created by state statute in 1982, the board was previously called the Missouri Industrial Development Board and later the Missouri Economic Development, Export, and Infrastructure Board. The board's powers include the authority to issue taxable or tax-exempt industrial revenue bonds or notes, provide loan guarantees to fund capital expansion projects for eligible businesses, provide market-rate or low-interest loans and grants to political subdivisions to fund public interest loans and grants to political subdivisions to fund public infrastructure improvements, and grant tax credits against certain state income taxes in exchange for contributions made to the board.

The majority of the board's activities revolve around financing the start-up or expansion of small- and medium-size manufacturing companies in Missouri. Board programs directed toward these businesses require the participation of commercial banks, thus enhancing the ability of these private lenders to assist economic growth in their communities. Since 1988 the board has been the largest issuer of small-issue private activity industrial development revenue bonds in Missouri. The borrowers participating in the board's bond note programs are responsible for repayment. The state of Missouri does not incur any costs, nor does it bear any obligation for retiring these bonds or notes.

Missouri Housing Development Commission

The Missouri Housing Development Commission makes and ensures loans to non-profit and limited-dividend sponsors of residential housing for low- and moderate-income persons. The commission also makes funds available for the purchase of single-family homes, at below-market interest rates, by low- and moderate-income persons. The funds for mortgage financing are provided through the sale of tax-exempt notes and bonds that the commission is authorized to issue. Additionally, the commission is authorized to establish a revolving fund to make non-interest-bearing loans to non-profit corporations to defray development costs of housing for low- and moderate-income persons. The commission provides advisory, consultative, training, and educational services to non-profit housing corporations.

The commission also administers the federal low-income housing tax credit, state low-income housing tax credit, and tax credit for affordable housing; operates a housing trust fund for very low-income persons; and provides assistance for the homeless.

DED administers twenty-two tax credit programs. They are:

- 1) Neighborhood Assistance Program - Neighborhood Assistance Programs (NAP) are those programs designed to give assistance to endangered neighborhoods and their residents in the improvement of the quality of life. Assistance can be granted if the neighborhood does not have the ability within its own resources to deal with the factors which are endangering its existence as a viable and stable neighborhood. An NAP is any type of community development project which improves the neighborhood by community services, crime prevention, education, job training, physical revitalization or economic development, as named in section 32.105, RSMo.
- 2) Business Use Incentives for Large-Scale Development Act - The Business Use Incentives for Large-Scale Development Act (BUILD) is designed to provide financial incentives in the form of state income tax credits to businesses in the amount of debt service payments for industrial revenue bonds issued for portions of project costs.
- 3) Jobs Training Tax Credit Program - The Jobs Training Tax Credit Program's intent is to provide education and training services for workers of new jobs for new or expanding industry in the state. An employer may enter into an agreement with a community college district to establish and provide various training and education programs to the employees of the company. The agreement between the community college and the employer must be approved by the Department of Economic

Development, Division of Job Development and Training in consultation with the Office of Administration.

4) Low-Income Housing Tax Credit Program - The Missouri Housing Development Commission (MHDC) was established in 1969 by the 75th General Assembly to assist in the creation of low and moderate income housing in Missouri. The legislature established a Commission which is currently composed of ten members. The Governor, Lieutenant Governor, the State Treasurer and the Attorney General serve on the Commission by virtue of office. The remaining six members are appointed by the Governor for staggered terms of four years, with the advice and consent of the Senate. These individuals must have demonstrated a concern for Missouri's housing needs. MHDC programs are varied and are available to low and moderate income Missourians, regardless of race, creed or national origin.

The Low-Income Housing Tax Credit, which is administered by MHDC, is a dollar-for-dollar reduction in tax liability to the owner of a qualified low-income housing development for the acquisition, rehabilitation, or construction of low-income rental housing units. The amount of credit allocated is directly based on the number of qualified low-income units that meet federal rent and income targeting requirements.

5) Seed Capital Program - The Seed Capital Program is designed to provide seed capital for research, development and precommercialization activities by offering tax credits for contributions to qualified funds of qualified economic development organizations. After January 1, 1999, the definition of commercial activity located in Missouri will include only activities located within distressed communities.

6) Qualified Research Expenses Tax Credit Program - The Qualified Research Expenses Tax Credit Program's intent is to induce existing businesses to increase their research efforts in Missouri. The term "qualified research expenses" is defined as technical research which is intended to further develop or advance the business, or experimental research which is intended to improve the quality, reliability or performance of a product. It does not include research performed after the start of commercial production.

7) The New or Expanded Business Facility Tax Credit Program - The New or Expanded Business Facility tax credit program allows tax credits against income tax or premium tax due for those businesses which create a new revenue producing business facility or those that expand a current revenue producing business facility. Examples of revenue producing enterprises include: manufacturing activities, agricultural activities, rail transportation terminal activities, motor freight transportation terminal activities, public warehousing and storage activities, water

transportation terminal activities, wholesale trade activities, insurance carriers activities, research and development activities, farm implement dealer activities, interexchange telecommunications activities, recycling activities, mining activities, computer programming, data processing and other computer related activities, and administrative headquarters activities for managing the previously mentioned areas.

8) Enterprise Zone Tax Credit Program - The enterprise zone is the most extensive and the most documented of all state economic development programs. The program became effective January 1, 1982. It authorizes several incentives for firms which invest or expand in one of the state's 62 designated enterprise zones. Although the criteria for what constitutes an Enterprise Zone have changed over time, in essence they define areas in which residents are relatively poor and have an unemployment rate much higher than the statewide average.

9) Brownfield Redevelopment Tax Credit Program - The intent of the Brownfield Redevelopment Tax Credit Program, also known as the abandoned property tax credit, is to provide financial incentives for the redevelopment of commercial/industrial sites owned by a governmental agency that have been abandoned for at least three years due to contamination caused by hazardous substances. The program also strives to create new jobs or retain existing jobs in the facilities being redeveloped.

10) Capital Tax Credit Program - The intent of the Capital Tax Credit Program, also known as the Small Business Investment Program, is to induce private investment into new or growing Missouri small businesses, which will result in the creation of new jobs and investment.

11) Community Development Corporation Tax Credit Program - The Community Development Corporation (CDC) Tax Credit Program, also known as the Community Bank Tax Credit Program, is a not for profit corporation whose board of directors is composed of business, civic and community leaders, which organization's primary purpose is to encourage and promote the industrial, economic, entrepreneurial, commercial and civic development or redevelopment of a community or area, including the provisions of housing and community economic development projects that benefit low-income individuals and communities. CDC's invest in new or growing small businesses or certain types of real estate development in a designated redevelopment area. The small businesses or housing projects that would receive loans from the community banks or CDC's would then create new jobs and investment opportunities in the redevelopment area.

- 12) Community Bank Tax Credit Program - The Community Bank Tax Credit Program is governed by Sections 135.400 through 135.430, RSMo. Community banks invest in new or growing small businesses or certain types of real estate development in a designated redevelopment area. The small businesses or housing projects that would receive loans from the community banks would then create new jobs and investment opportunities in the redevelopment area.
- 13) Youth Opportunities and Violence Prevention Tax Credit Program - The Youth Opportunities and Violence Prevention Tax Credit Program's intent is to broaden and strengthen opportunities for positive development and participation in community life for youth, and to discourage such persons from engaging in criminal and violent behavior.
- 14) Infrastructure Tax Credit Program - The Infrastructure Tax Credit Program is designed to provide tax-exempt fixed-rate bond financing, tax-anticipation notes, and long-term low-interest loans to political subdivisions to fund infrastructure improvements. Publicly-owned water, sewer, gas, electrical systems, streets, bridges, rail spurs, storm water drainage and other publicly owned infrastructure facilities which are available for use of the general public are eligible.
- 15) Development Reserve Fund Tax Credit - The Development Reserve Fund Tax Credit Program is designed to provide tax-exempt and taxable revenue bonds and loan and bond guarantees for qualified projects.
- 16) Export Finance Fund - The Export Finance Fund is to provide assistance to those Missouri businesses involved in export trade activities. Export trade activities includes international marketing, research, advertising, product research and design, transportation, communication, and processing of foreign orders to and for exporters, etc. when such activities are undertaken to facilitate the export of goods or services produced or assembled in Missouri.
- 17) Development Tax Credit Program - The purpose of Development Tax Credit (DTC) program is to facilitate a business project in order to create new jobs. The DTC offers state tax credits to eligible donors who make contributions to a non-profit corporation for projects approved by the Missouri Department of Economic Development.
- 18) Certified Capital Company Tax Credit - The Certified Capital Company (CapCo) Tax Credit Program's intent is to induce private investment into new or growing Missouri small businesses, which will result in the creation of new jobs and investment, by initiating the formation of private venture capital firms ("CapCos") that

invest in small businesses. Certified capital companies are partnerships, corporations, trusts or limited liability companies located, registered, and headquartered in Missouri that has as its primary business activity the investment of cash in qualified Missouri businesses. CapCos must be certified by DED. However, once a CapCo has been certified, DED does not have the authority to require a CapCo to fund a project.

19) Missouri Historic Tax Credit Program - The Missouri Historic Tax Credit Program's intent is to aid in the redevelopment of historic structures in the State of Missouri.

20) Small Business Incubator Tax Credit Program - The Small Business Incubator Tax Credit Program's intent is to generate private funds to be used to establish a "protective business environment" (incubator) in which a number of small businesses can collectively operate to foster growth and development during their start up periods. An incubator is defined as a program in which small units of space may be leased by a tenant and in which management maintains or provides access to business development services for use by tenants, or a program without infrastructure in which participants avail themselves of business development services to assist in the growth of their start-up small businesses.

21) Affordable Housing Tax Credit Program - The Missouri Housing Development Commission (MHDC) was established in 1969 by the 75th General Assembly to assist in the creation of affordable housing in Missouri. The legislature established a Commission which is currently composed of ten members. The Governor, Lieutenant Governor, the State Treasurer, and the Attorney General serve on the Commission by virtue of office. The remaining six members are appointed by the Governor for staggered terms of four years, with the advice and consent of the Senate. These individuals must have demonstrated a concern for Missouri's housing needs. Any business firm which engages in providing affordable housing assistance activities in the state of Missouri shall receive a tax credit as provided in section 32.115 if the commission or its delegate approves a proposal submitted by one or more business firms for the provision of affordable housing units.

22) Bond Guarantee Tax Credit Program - The Bond Guarantee Tax Credit Program allows owners of revenue bonds and notes issued for infrastructure facilities to take a credit for unpaid principal of and accrued interest on those bonds if the borrower defaults.

23) Tax Increment Financing Program - The Tax Increment Financing Program (TIF) is designed to make financing of public improvements easier for cities and counties

and to provide incentive for private investment in defined areas. Tax increment financing programs dedicate presumably incremental tax revenues generated by a development to a special allocation fund. The revenues are used to repay the cost of the project. Missouri law allows use of special fund revenues to directly pay for project expenses or to repay loans incurred to pay for the project.

In addition, effective August 28, 1998, the following tax credit programs were added or changed:

- 1) Grape Growing or Wine Production Tax Credit - The Grape Growing or Wine Production Tax Credit Program is effective for tax years ending after December 31, 1998. A corporation franchise (income) or personal income tax credit will be allowed for grape growers or wine producers in an amount equal to 25% of the purchase price of all new equipment and materials used directly in the growing of grapes or the production of wine in Missouri. The tax credit is limited to five tax periods.
- 2) Film Production Tax Credit - The Film Production Tax Credit Program is effective as of January 1, 1999. A corporation franchise (income), personal income, or financial institutions (income) tax credit will be allowed for up to 50% of the amount of investment in production or production-related activities by a qualified film production company. A qualified film production company is a company with an expected in-state expenditure budget in excess of \$3 million. The tax credit is limited to \$500,000 per taxpayer and the total for all credits may not exceed \$1 million per year. A five-year carryover is allowed for unused tax credits; however, all carryover tax credits must be claimed within ten tax periods following the tax period in which the film production or production-related activities occurred. The tax credit may be sold, assigned, or transferred.
- 3) New Business Facilities and Enterprise Zones Tax Credits - The New Business Facilities and Enterprise Zones Tax Credits state that an automobile manufacturer or assembler that is located within an enterprise zone will be eligible for a strategic initiative investment corporation franchise (income) tax refund. An eligible company must have invested a minimum of \$100 million in new facilities or equipment and the tax credits for the company for the years 1994 through 1997 must have exceeded the company's total state income tax for those years by at least \$20 million. The maximum amount of refund per company is limited to \$2 million a year.

In addition, for purposes of the new business facility and enterprise zone corporation franchise (income) and personal income tax credits, the term "revenue producing enterprise" would include services or training activities by a local exchange

telecommunications company. Also, a refund of any business facility tax credit that exceeds a taxpayer's corporation franchise (income) or personal income tax liability would be limited to employee-owned engineering, architectural, or accounting firms.

4) Neighborhood Assistance Tax Credit - The Neighborhood Assistance Tax Credit Program is amended to state the 70% neighborhood assistance corporation franchise (income) and personal income tax credits for contributions to programs related to special program priorities or located in a city, town, or village with a population of 15,000 or less may not exceed \$4 million in fiscal year 1999 and \$6 million in fiscal year 2000 and any subsequent fiscal year. When the maximum dollar limit on the 70% tax credit is reached, the tax credit would be reduced to 50% of the total amount contributed. In addition, the total amount of all neighborhood assistance tax credits allowed for any fiscal year may not exceed \$28 million (formerly \$22 million).

5) Small Business Investment Tax Credit - The Small Business Investment Tax Credit Program is amended for the purposes of the small business investment corporation franchise (income) and personal income tax credit, cooperative marketing associations are exempt from the requirement that the business receiving the investment must have annual revenues of \$2 million or less. Also, a provision making the tax credit ineligible to a principal owner, his or her spouse, any person related to them, or any corporation, partnership, trust, or other entity that is controlled, directly or indirectly, by them is not applicable to cooperative marketing associations.

6) Historic Building Rehabilitation Tax Credit - The Historic Building Rehabilitation Tax Credit Program is amended for historic building rehabilitation corporation franchise (income), personal income, and financial institution (income) tax credit will not be available to nonprofit entities. Eligible taxpayers may transfer, sell, or assign the tax credits.

7) Abandoned Property Tax Credit - The Abandoned Property Tax Credit Program is amended so that privately owned property may qualify for a tax credit against corporation franchise (income), personal income, and financial institutions (income) for abandoned property that is being remodeled or renovated if the city or county approves the project. Previously, the tax credit was limited to property that reverted to a governmental entity through donation, purchase, tax delinquency, foreclosure, default, or settlement, including conveyance by deed in lieu of foreclosure. The tax credit is not available to persons who intentionally or negligently caused the release of hazardous substances on the property.

Sales of any abandoned or underutilized property within five years of receiving tax credits, grants, loans, or loan guarantees require repayment of a portion of the owner's investment. For purposes of the credit, the cost of demolition and asbestos abatement may be included as an allowable cost. A city or county must provide property tax abatement to an eligible project for at least 50% for ten to twenty-five years. A taxpayer operating an eligible project may still claim the state tax credits and the state tax exemption for a period not to exceed ten consecutive years; however, a requirement that the tax credits and exemptions be claimed for a minimum number of four tax periods was deleted. Also deleted was a provision that restricted local governing authorities from granting incentive for periods in excess of fifteen years.

The remediation tax credits for the costs of material and labor expended by an operator of an eligible project was amended to provide that 75% of any earned tax credits would be issued when the remediation costs are paid, and the remaining percentage may be issued when the Department of Natural Resources issues a Letter of Completion or covenant not to sue following completion of the voluntary remediation. Previously, earned remediation tax credits were approved only after the Director issued a "No Further Action" letter or covenant not to sue following completion of the remediation activities, or at the end of the tax period in which costs were incurred and the equipment was capable of being operated, whichever was earlier.

8) Transportation Development Tax Credit - The Transportation Development Tax Credit Program is effective for tax years ending after December 31, 1998. A corporation franchise (income), financial institution, or personal income tax credit will be allowed for taxpayers in an amount equal to 50%. The tax credit is limited to five tax periods.

There are currently four other tax credit programs that are administered by other state agencies in addition to those tax credit programs administered by the Department of Economic Development. They are:

1) Wood Energy Tax Credit - The Wood Energy Tax Credit Program is administered by the Department of Natural Resources - Division of Energy under sections 135.300 to 135.311 RSMo, Cum Supp 1997. The program provides that a Missouri wood energy producer to be eligible for a tax credit on income taxes due except for withholding taxes. The program is a production incentive to produce processed wood products in a qualified wood producing facility using Missouri forest product residue.

The tax credit is five dollars per ton of processed material. The tax credit may be claimed for a period of five years. Any amount of tax credit in excess of the tax due is not refunded but may be carried over to subsequent taxable years. In addition, the tax credit may be assigned to a third party.

2) Special Needs Child Adoption Tax Credit - The Special Needs Child Adoption Tax Credit Program is administered by the Department of Social Services - Division of Family Services under sections 135.326 to 135.339 RSMo, Cum Supp 1997. The program provides that any Missouri resident who legally adopts a special needs child on or after January 1, 1988 is eligible to receive a tax credit of up to ten thousand dollars for nonrecurring adoption expenses for each child adopted. In addition, any business entity that provides funds to an employee for a special needs child adoption is also eligible to receive a tax credit of up to ten thousand dollars for nonrecurring adoption expenses for one child. The program is an incentive to individuals and business entities to adopt special needs children.

The tax credit may be claimed for a period of five years. Any amount of tax credit in excess of the tax due is not refunded but may be carried over to subsequent taxable years. In addition, the tax credit may be assigned to a third party.

3) Shelters for Victims of Domestic Violence Tax Credit Program- The Shelters of Victims of Domestic Violence Tax Credit Program is administered by the Department of Public Safety under section 135.550 RSMo, cum supp 1997. The program allows any Missouri taxpayer who contributes to a shelter for victims of domestic violence to receive a tax credit in an amount equal to fifty percent of the amount the taxpayer contributes not to exceed fifty thousand dollars per taxable year.

The director of the Department of Public Safety will at least annually determine which facilities in the state may be classified as a shelter or victims of domestic violence. The director will also establish a procedure by which the cumulative amount of tax credits for this program are equally apportioned among all shelters. The cumulative amount of tax credits which may be claimed by all the taxpayers contributing to shelters of victims of domestic violence in any one fiscal year cannot exceed \$2,000,000.

4) Maternity Home Tax Credit Program - The Maternity Home Tax Credit Program is administered by the Department of Social Services under section 135.600 RSMo, cum supp 1997. The program allows any Missouri taxpayer who contributes to a maternity home to receive a tax credit in an amount equal to fifty percent of the amount the taxpayer contributes not to exceed fifty thousand dollars per taxable year.

The director of the Department of Social Services will at least annually determine which facilities in the state may be classified as a maternity home. The director will also establish a procedure by which the cumulative amount of tax credits for this program are equally apportioned among all shelters. The cumulative amount of tax credits which may be claimed by all the taxpayers contributing to maternity homes in any one fiscal year can not exceed \$2,000,000.

Objectives

The evaluation and review had the following components: to determine the effectiveness of the tax credit programs, the benefits of the program in relation to expenditures, the goals of the tax credit programs, the development of indicators by which the success or failure of a tax credit program may be gauged, the conformity of the tax credit programs with legislative intent, and the impact of any federal grant programs on the tax credit program.

Scope

The scope of the evaluation and review concentrated on the effectiveness and efficiency of the Department of Economic Development, Tax Credit Program's use of the various tax credits available to assist and expand Missouri's base of business for the time period of July 1, 1991 through June 30, 1998. The main areas considered in the review were: to determine the effectiveness of the tax credit programs, the benefits of the program in relation to expenditures, the goals of the tax credit programs, the development of indicators by which the success or failure of a tax credit program may be gauged, the conformity of the tax credit programs with legislative intent, and the impact of any federal grant programs on the tax credit program.

Methodology

The methodology used by the Oversight Division included tests of samples of transactions and evaluations of management controls to the extent necessary to fulfill evaluation objectives. A primary method used to measure objectives was conducting personal interviews with agency personnel.

Additionally, the evaluation included performing on-site testing of controls and procedures.

Chapter 2 - Fiscal Responsibility

Significant differences exist between amounts reported in statutorily required tax expenditure reports and the Department of Revenue's records of tax credits claimed.

During Oversight's evaluation period, the State of Missouri has had up to twenty-two different tax credits available for use by businesses and individuals. The Department of Revenue (DOR) reported amounts of tax credits claimed annually increased from \$34,072,569 in FY 93 to \$54,522,666 (60%) in FY 98 (appendix A).

The Office of Administration (OA) is required by Section 33.282, RSMo to submit a tax expenditure budget to the General Assembly as a part of the state's overall budget. The tax expenditure budget is prepared annually through a contract with the University of Missouri (UM) - School of Business and Public Administration. This tax expenditure budget, which is prepared for a ten year period, is to include the reduction in revenue collections for each fiscal year as a result of each deduction, exemption, credit, or other tax preference. To be an effective management and oversight tool, this report should include accurate information regarding tax expenditures.

Oversight's review of the tax expenditure report prepared in January, 1997, noted significant differences between the tax credits claimed according to DOR and the credits claimed according to the UM tax expenditure report.

Oversight recommends that the Office of Administration, the Department of Economic Development, and the Department of Revenue reconcile differences between the tax expenditure report and amounts reported as claimed to state agencies and determine the cause for the differences. For budgeting purposes, the Executive Branch is relying on information regarding total tax credits claimed which may be erroneous. This could result in inaccurate state revenue forecasts.

The Department of Economic Development does not reconcile the amount of tax credits it approves to the amount reported as approved by the Department of Revenue. The differences have been as much as \$14 million for one year.

For fiscal years 1994 through 1997, Oversight found significant differences between the individual tax credits approved by the Department of Economic Development (DED) and approved tax credits entered into the Department of Revenue's (DOR) Tax Credit System Transaction Tracking Report (see appendix B). These differences ranged from approximately \$300,000 in one fiscal year to over \$14 million in another. During discussions with the tax credit programs only two of the tax credit programs were aware of the DOR report that reflects the amounts of tax credits that DOR is allowing taxpayers. Without periodic reconciliation between DED records and DOR reports, there are no assurances that the proper amounts of approved tax credits are being claimed by taxpayers. In effect, this inaccurate recordkeeping could be resulting in large amounts of lost tax revenues.

Oversight recommends that the General Assembly request the Department of Economic Development (DED) work with the Department of Revenue (DOR) to create and implement a system that would allow for monthly reconciliation of tax credits approved by DED and approved tax credits entered into the DOR Tax Credit System Transaction Tracking Report. Oversight also recommends that DED implement proper controls to ensure the integrity of their data.

Overall, the tax credit programs administered by the Department of Economic Development lack fiscal accountability.

Oversight's evaluation of the tax credit programs administered by the Department of Economic Development (DED) noted several accounting issues and monitoring concerns. The accounting issues included lack of reconciliations, lack of accounting information, and preparation of tax credits in advance. The monitoring concerns included non-verification of new jobs created, proper utilization of investments, retention of financial and compliance records for a project, and other statutory requirements. The amount of tax credits authorized by DED during Oversight's evaluation period increased from approximately \$64,000,000 in fiscal year 1993 to approximately \$150,000,000 in fiscal year 1998, an increase of 134%. With fifty-five different financial incentive

programs offered to businesses by DED, Oversight believes that a separation of duties between those employees who authorize financial incentives and those who monitor the financial incentives within the programs is necessary. Currently, the same employee who authorizes the financial incentives for a business also reviews any reports submitted and performs on-site monitoring of the business. In addition, the State Auditor's Office has not performed an audit or special review of the tax credit programs since March, 1992 (period ending June 30, 1991).

Oversight recommends that the General Assembly consider funding an internal audit staff within the Department of Economic Development to promote fiscal accountability.

Chapter 3 - Compliance Issues

Projecting the fiscal impact of new or expanding tax credit programs is difficult and sometimes immeasurable.

As part of Oversight's review of the tax credit programs, comparisons were made of actual fiscal impact of recently implemented or changed tax credits to the fiscal notes presented to the General Assembly during the passage of the measures. In several instances, the Department of Economic Development did not predict the financial loss to the state, portraying an "unknown" fiscal impact. The Oversight Division was also unable to obtain an accurate estimate of the impact. For example, Senate Bill 827, passed during the 1998 legislative session contained numerous changes to existing tax credit programs which were expected to generate revenue losses of undetermined amounts. The bill also created new tax credit programs. The fiscal effects of this proposal remain unknown until tax filings reveal the utilization of the credits.

The Department of Economic Development did not project the fiscal impact of the Historic Preservation Tax Credit as it passed through the legislature in 1997. At the time, Oversight obtained historical data on the federal historic

preservation tax credit. Based on that data, which was the best information available, Oversight assumed a loss of state funds of \$2.8 million in fiscal year 1999 and \$7.1 million in fiscal year 2000. DED currently has on file applications that could result in a loss of state funds of \$8.4 million in fiscal year 1999 and \$35.6 million in fiscal year 2000. DED also stated that there are other projects that are known but have not submitted a state application. However, there is no guarantee that all projects submitting an application will reach completion and claim the tax credit.

Changes were made to the Qualified Research Expense Tax Credit Program in 1998, which placed an accumulated cap of \$10 million on the program. DED estimated annual savings of \$1 million. In reviewing actual data received from DED for tax credits authorized for fiscal year 1998 for Qualified Research expenses, Oversight noted tax credits authorized of \$16.5 million. It appears the savings from the legislative change may have been underestimated by DED in the amount of \$5.5 million annually.

As illustrated above, it is difficult and sometimes impossible to predict the fiscal impact for new or expanded tax credits. Oversight recommends the General Assembly consider creating a review period for new or expanded tax credits, perhaps the first three to five years following implementation. During this time period, annual reporting of tax credits authorized, tax credits used, and outstanding tax credits could be utilized as a basis for determining the need for adjustments to the programs for the purpose of maintaining fiscal control. It appears the Joint Committee on Economic Development Policy and Planning would have the statutory authority for this review and could, if necessary, make recommendations annually to the General Assembly regarding specific tax credits. Such recommendations could include reducing or increasing the amount of the percentage of the tax credit, placing an annual or cumulative cap on the credit, creating a mechanism for a revolving tax credit cap, removing a tax credit cap, or eliminating certain tax credit programs entirely. The Joint Committee should also work with budget and appropriations staff in determining the

General Assembly that could be used in making decisions regarding legislative changes on current programs and proposed new programs.

Oversight recommends that the General Assembly encourage the Department of Economic Development and the Office of Administration to comply immediately with Section 620.1300 RSMo, Cum. Supp. 1997, and should consider funding the study regularly every four years.

The Department of Economic Development Capital Tax Credit Program prepared tax credit authorization forms more than six months in advance of their effective date.

During Oversight's evaluation of the Department of Economic Development (DED) - Capital Tax Credit Program (Program), we observed that tax credit authorization forms had been prepared more than six months in advance of the effective date of the program (January 1, 1999). The program has a statutorily established maximum authorized amount of tax credits of \$5,000,000. As of June 30, 1998 (six months prior to the effective date of the new program); the Program had authorized the full amount of tax credits allowed by statute. The post-dating of tax credit authorization forms that are not supported by available funds circumvents the process dictated in statute and DED policy and procedures. In addition, these tax credits are provided on a first-come-first-serve basis and therefore issuing credits six months in advance provides an unfair advantage over other contributors seeking the credits.

Oversight recommends that the Department of Economic Development (DED) not allocate or authorize tax credits prior to the funds being available for distribution.

The Department of Economic Development - Capital Tax Program does not verify that businesses that receive tax credits are in compliance with statutory requirements.

The Capital Tax Credit Program (Program), also known as the Small Business Investment Program, is intended to induce private investment in new or growing Missouri small businesses which will result in the creation of new jobs and investment. In 1994, a cumulative limit of \$5,000,000 was placed on the Program. As of June 30, 1998, the Program had authorized \$5,009,604 in Capital Tax Credits to fifty-two companies with an investment of over \$14,000,000. During

Oversight's review of the Program we noted the following concerns:

- a. The Program has exceeded its statutory cumulative limit by \$9,604. The Program could not explain how or why this happened.
- b. The Program personnel do not verify that funds received from investors are used for new capital improvements (i.e. real estate, machinery and equipment, furniture and fixtures); research and development; and certain working capital expenditures, including new inventory, payroll, advertising/marketing, professional services, and other expenses approved by the Program. In addition, these funds must be used in Missouri. The Program's guidelines and procedures identify eligible uses of funds.
- c. The Program personnel do not verify that qualified small businesses are headquartered in Missouri and employ less than one hundred employees. Section 135.400 (8), RSMo 1997, requires that businesses in this program be headquartered in Missouri and employ no more than one hundred employees.
- d. The Program personnel do not verify that investments made in a qualified Missouri small business remains in the qualified small business for at least five years from the date of the investment. The Program's guidelines and procedures establish a five-year minimum investment time period that a qualified investment must remain in the business.

Without proper follow-up and monitoring, there is no assurance that private investment in new or growing Missouri small businesses is actually occurring. DED also cannot properly assess the effectiveness of the tax credit program.

Oversight recommends that the that the General Assembly encourage DED to examine and monitor these reported investments at least on a sample basis. In addition, DED should discuss with the Department of Revenue tax credit monitoring issues that would be of benefit to each agency.

The Department of Economic Development - Seed Capital Program has not encouraged investment of seed capital by private sources in Missouri.

During Oversight's evaluation of the Seed Capital Program (Program) it was noted that the Program had authorized almost all of the tax credits allowed under current Missouri law, but apparently has not encouraged investment of seed capital by private sources in Missouri. Section 348.302.2 RSMo limits the total amount of seed capital tax credits to five million dollars cumulatively. As of June 30, 1998, the Program had authorized \$4,820,918 in tax credits. Of this amount, \$4,470,535 had been claimed on tax returns that had been filed with the Department of Revenue. Seed credit funds are trusts established by individual businesses which are using the credits to raise money. The state, through these tax credits, is financing 30% of the enterprises in exchange for an indirect 10% ownership position in the businesses through the economic development agencies licensed by DED. According to a study by PricewaterhouseCoopers, venture capital investments generally will be successful approximately 10% to 15% of the time. Seed (or initial) investments are the earliest stage of venture capital investment; therefore, the chances of seed investments paying off are probably less than 10% to 15%.

State tax credits should be used to "leverage" private venture capital in Missouri thus increasing the number and amount of start-up deals and increasing the chances of successful start-ups. The "hot" new areas for start-up companies, computer and biotechnology, tend to be expensive even to begin. Oversight noted one seed capital investment effort that used approximately \$2,000,000 of the available credits (representing over \$6,500,000 worth of investment) that was not successful. Oversight reviewed The Moneytree™ survey and noted four seed capital investments in the Midwest region during the second quarter of 1998. The average investment was over \$1.25 million. The average investment for seed capital deals nationally was over \$2.7 million. The state is limited in the number and type of seed capital projects in which it can encourage participation. If all \$5,000,000 in tax credits were available right now, Missouri could leverage only four "average" seed capital deals.

Oversight suggests that there are two possible approaches which could ensure continuing support for seed/initial investments in Missouri. They are that:

- a) the General Assembly consider authorizing enough new credits to leverage a "critical mass" of different investments by private investors so that qualified investment companies would continue to make investments even after they have used available credits. This would probably require authorization of a comparatively large aggregate amount of credits (\$50,000,000), or
- b) the state could consider making a certain amount of seed/initial capital credits available on a continuing basis. For example, instead of having an aggregate limit of \$5,000,000 on seed capital credits, have \$5,000,000 in credits available at any given time. As credits are used, DED could approve new credits but there would never be more than \$5,000,000 outstanding at any one time. A "revolving" credit would allow flexibility to take advantage of them.

In addition, Oversight also recommends that if the General Assembly would opt to make significant additional seed capital incentives available then persons involved in operating qualified investment funds should at a minimum meet the Small Business Administration standards for operators of Small Business Investment Companies.

The Department of Economic Development - Enterprise Zone Tax Credit Program does not verify jobs created or the amount of investment required by the creation or expansion of a business.

Oversight noted during the evaluation of the Department of Economic Development (DED) - Enterprise Zone Tax Credit Program (Program) that the Program does not require specific verification of new jobs created and minimum investment required as a result of the creation or expansion of a business. The Program accepts the information provided by the applicant and does not verify the information. Program policies state that to receive enterprise zone tax credits a new or expanded business must create and retain two new jobs

and have a new investment of \$100,000 each year. Current Program policies require businesses to list the aggregate number of jobs in comparison to the base year. If there is an increase of over two jobs and \$100,000 in new investment the tax credit is recalculated and approved. As a result the state may be granting enterprise zone tax credits to those businesses that did not create or retain new jobs or the minimum amount of investment.

The Department of Economic Development - Enterprise Zone Tax Credit Program is not monitoring enterprise zone applicants in a timely manner.

The Department of Economic Development (DED) has been accepting information on over \$60 million in enterprise zone tax credits at face value, without verifying data or physically viewing sites. During Oversight's evaluation of DED's - Enterprise Zone Tax Credit Program (Program) it was noted that the Program has not been performing internal reviews of enterprise zone tax credit applicants. Oversight requested a listing of internal reviews performed for the evaluation period and noted that only one internal review had been performed since October, 1993. The Program has only two FTEs dedicated to this program, a professional employee and a clerical employee. In addition, these FTEs are also responsible for the New and Expanded Business Facility Tax Credit Program. Current DED policies require businesses to list investments generated and the increase in the aggregate number of jobs in comparison to the base year each year. This information allows DED to recalculate the tax credits applicable for that tax year. For a business to receive enterprise zone tax credits the business must have created at least two new jobs and \$100,000 of new investment at a project site. The state has been unable to perform any other type of analysis other than reviewing the mathematical accuracy of the re-application information each year. As a result, all the information submitted by the applicant is usually accepted at face value. Thus the state may be granting enterprise zone tax credits to those companies that did not actually meet the required specifications.

Oversight recommends that the Department of Economic Development (DED) perform on-site internal reviews of the

applicants on a sample basis to verify the compliance with statutory requirements.

Not all proposals for neighborhood assistance tax credits submitted to the Department of Economic Development included the required written local public authority endorsement.

When an organization applies for neighborhood assistance tax credits with the Department of Economic Development (DED), the application is required to include written documentation that the local political subdivision supports the purpose and scope of the need for the neighborhood assistance program project. In evaluating the DED - Neighborhood Assistance Tax Credit Program (NAP), Oversight noted that not all proposals for neighborhood assistance tax credits submitted to the Department of Economic Development included the required written local public authority endorsement of the project. The NAP is not in compliance with its own rules and regulations, 4 CSR 85-2.020, which states that in no case shall a neighborhood assistance project be approved that does not include the written endorsement of the local public authority. Approving applications without written documentation of support from the local political subdivision could leave the state responsible for a project that may not be wanted or needed in a locale.

Oversight recommends that the Department of Economic Development (DED) comply with the rules and regulations of the program.

The Department of Economic Development - Neighborhood Assistance Tax Credit Program has not maintained financial and compliance audit records of projects as required by the project agreement.

Upon approval of a neighborhood assistance project, the Department of Economic Development (DED) - Neighborhood Assistance Tax Credit Program (NAP) enters into an agreement with the project administrator that requires non-discrimination, a certain time period for the project to be completed, and retention of financial and compliance audit records. DED - NAP is not in compliance with provisions of the NAP project agreement concerning the retention of financial and compliance audit records. Article VIII of the NAP project agreement states that if the amount of tax credits authorized to donors equals \$25,000 or more, a financial and compliance audit of the NAP project is to be submitted to

DED no later than six (6) months after the close of the NAP fund-raising period. During Oversight's evaluation of NAP projects, DED has not retained financial and compliance audit records for all projects reviewed. These financial and compliance audit records provide an independent verification that the NAP project is meeting the provisions of the project agreement.

Oversight recommends that the Department of Economic Development (DED) - Neighborhood Assistance Program (NAP) obtain and retain the financial and compliance audit records for NAP projects as required by the NAP project agreement.

Chapter 4 - Outside Compensation

A Department of Economic Development employee is receiving compensation from an outside organization that could result in a conflict of interest.

During Oversight's evaluation of the tax credit programs administered by the Department of Economic Development (DED), it was noted that a key employee of DED was receiving compensation from an outside not-for-profit organization. Apparently, DED is in agreement with the situation which results in this employee being paid salaries both by DED and the not-for-profit organization simultaneously. The not-for-profit organization works closely with DED in the attraction and expansion of economic development in Missouri. However, members of this organization are businesses in Missouri who have benefitted or could possibly benefit from financial incentive programs administered by DED. While no evidence of inappropriate situations came to our attention during the program evaluation, such an arrangement could create the appearance of an ongoing conflict of interest. DED explained that this outside organization assists the department by paying for items that may not be allowed under state spending restrictions such as gifts to foreign business persons and entertainment costs which exceed normal state business guidelines.

OVERSIGHT DIVISION
Evaluation 1998
Tax Credit Programs

Oversight recommends that the General Assembly request the Department of Economic Development (DED) to implement a policy prohibiting employees from engaging in activities which might conflict or give the appearance of a conflict with their DED duties. In addition, Oversight recommends the General Assembly consider increasing the funding for key positions to 100%.

Chapter 5 - Conclusion and Recommendations

The Department of Economic Development includes four main employee groups whose responsibilities focus on executing statutory requirements and department policy in the areas of Business Development, Business Expansion and Attraction, Community Development, and Workforce Development. These groups of employees work with local communities to help firms create jobs, increase sales, find and train qualified workers, identify sites and obtain financing support to locate or expand in Missouri as well as promote capital investment and the self-sufficiency of communities in the state. To assist them in this effort, the General Assembly has enacted laws authorizing twenty-two tax credit programs. They are as follows: Neighborhood Assistance Program, Business Use Incentives for Large-Scale Development Act, Jobs Training Tax Credit Program, Low-Income Housing Tax Credit Program, Seed Capital Program, Qualified Research Expenses Tax Credit Program, New or Expanded Business Facility Tax Credit Program, Enterprise Zone Tax Credit Program, Brownfield Redevelopment Tax Credit Program, Capital Tax Credit Program, Community Development Corporation Tax Credit Program, Community Band Tax Credit Program, Youth Opportunities and Violence Prevention Tax Credit Program, Infrastructure Tax Credit Program, Development Reserve Fund Tax Credit, Export Finance Fund, Development Tax Credit Program, Certified Capital Company Tax Credit, Missouri Historic Tax Credit Program, Small Business Incubator Tax Credit Program, Missouri Housing Development, Bond Guarantee Tax Credit Program and Tax Increment Financing Program.

The above tax credits resulted in authorized deductions from state tax liabilities of \$150,000,000 in state fiscal year 1998. The amount of authorized tax credits increased 134% in five years, from fiscal year 1993 to fiscal year 1998. However, the authorization to receive a tax credit does not always result in the immediate utilization of that credit and loss of revenue to the state. This is evidenced by the fact that only \$54 million of the \$150 million authorized in FY 98 was claimed that year. Many of the tax credits have carry-back and carry-forward provisions to allow taxpayers the option of reducing not only the current year's tax bill, but previous and subsequent years' tax bills.

Oversight's evaluation of the DED Tax Credit Programs focused on the periods July, 1991 through June, 1998.

Are the tax credit programs being effectively administered?

In its evaluation of the accounting systems, Oversight noted significant differences exist in records of various departments. For instance, tax credits claimed according to the Department of Revenue and tax credits claimed according to the University of Missouri Tax Expenditure Report did not agree. For budgeting purposes, the Executive Branch is relying on information regarding total tax credits claimed which may be erroneous. For fiscal years 1994 through 1997, Oversight also found significant differences between the individual tax credits approved by the DED and the Department of Revenue's tax credit tracking report. These differences ranged from approximately \$300,000 in one fiscal year to over \$14,000,000 in another. Without periodic reconciliation between DED records and DOR reports, there are no assurances that the proper amounts of approved tax credits are being claimed by taxpayers. In effect, this inaccurate recordkeeping could be resulting in large amounts of lost tax revenues. The tax credit programs have varying time periods over which a taxpayer may claim an approved credit, ranging from one to fifteen years. DED is not able to determine how much of an approved tax credit has been claimed, when it was claimed, or how much remains to be claimed. Because DED is now approving over \$100 million in new tax credits annually, accurate records of the amount of tax credits approved, claimed and outstanding are essential to effectively project the potential reduction of revenue to the state as a result of the future use of outstanding credits. Overall, Oversight concludes the tax credit programs administered by DED lack fiscal accountability. Among Oversight's recommendations is the implementation of an internal audit function within the Department.

The application procedures for tax credit programs in Missouri appear to be cumbersome. A businessperson must fill out separate applications for each of the twenty-two tax credit programs for which he or she is interested. There is no well defined path for someone seeking tax credits. The state should make its activities as rational and user-friendly as possible. Oversight recommends the DED develop a classification system which could be used to guide applicants to the most appropriate incentive programs.

Are the tax credits working?

Oversight noted a few areas which may warrant further consideration by the legislature. Oversight made comparisons of actual fiscal impact of recently implemented or changed tax credits to the fiscal notes prepared during the passage of the proposals. The Department of Economic Development was not always able to predict the financial loss to the state reflecting an "unknown" fiscal impact. It is difficult and sometimes impossible to predict the fiscal impact of new or expanded tax credits. Oversight recommends the General Assembly consider creating a review

period for new or expanded tax credits, perhaps the first three to five years following implementation. Oversight also noticed that the Export Finance Fund tax credit has not been utilized since its inception in 1982. The DED has not received any income, disbursed any funds, or authorized any tax credits for this program. Consequently,

Oversight recommends consideration be given to repealing the section of law which created it.

In determining whether tax credits are resulting in their intended benefits, Oversight looked at the data collected by the DED. For instance, the Capital Tax Credit Program, also known as the Small Business Investment program, is intended to induce private investment in new or growing Missouri small businesses which will result in the creation of new jobs and investment. During our review, we noted that the statutory limit on the amount of these credits was exceeded; that program personnel do not verify funds received from investors are used for new capital improvements, research and development, and certain working capital expenditures; that program personnel do not verify qualified small businesses are headquartered in Missouri and employ less than one hundred employees; that program personnel do not verify investments made in a qualified Missouri small business remains in the qualified small business for at least five years from the date of the investment. The DED also does not require verification of new jobs created and minimum investment required as a result of the creation or expansion of a business in the Enterprise Zone Tax Credit Program. As a result of the DED accepting information submitted at face value, without proper follow-up and monitoring, there is no assurance that private investment in new or growing Missouri small businesses is actually occurring and companies are meeting the required specifications. Oversight believes that DED cannot properly assess the effectiveness of tax credit programs in the absence of such important information.

State statutes require an independent cost benefit analysis be prepared once every four years, beginning in 1997, to evaluate the effectiveness of all programs operated by the DED for which DED approves tax credits, loans, loan guarantees, or grants. Such an evaluation, though it would likely be extremely beneficial to legislative decision-makers, has never been completed as described in the law.

Oversight recommends the General Assembly consider the following legislative changes:

Consideration of repealing Section 100.250 (5) RSMo, relating to the Export Finance Credit.

Consideration of a legal requirement for taxpayers to supply documentation or verification of Qualified research expenses incurred before DED may issue the tax credits.

Consideration of a review period for new or expanding tax credit programs, perhaps during the first three to five years following implementation.

Consideration of changes to seed capital incentives, sufficient to ensure continuing support for seed/initial investments in Missouri.

Oversight recommends the following administrative changes:

The Office of Administration, Department of Economic Development and the Department of Revenue should immediately work to reconcile differences between the tax expenditure report and amounts reported as claimed to state agencies.

The DED should work with the DOR to create and implement a system that would allow for monthly reconciliation of tax credits approved by year, tax credits claimed by year, and tax credits outstanding by year approved. In addition, proper controls should be put into place to ensure the integrity of the data. For budgeting purposes, the General Assembly should be advised on the total potential tax credits outstanding with predictions on the expected amounts to be claimed annually.

The DED should implement monitoring, reporting and/or compliance procedures to ascertain that those receiving tax credits have met the requirements of the various tax credit programs. This could include on-site reviews of the applicants on a sample basis, monitoring reported investments on a sample basis, obtaining financial and compliance audit records, etc. In addition, the DED should consider working with the DOR in on-site or audit activities of the tax credits.

To ensure fiscal accountability, the DED should consider forming an internal audit staff to oversee the implementation of accounting systems and the ongoing monitoring of the Department's accounting matters.

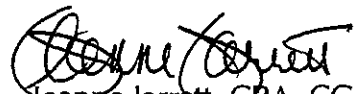
The DED should develop a classification system, and streamline the application forms to simplify the tax credit application process and make it more user-friendly.

OVERSIGHT DIVISION
Evaluation 1998
Tax Credit Programs

Oversight acknowledges the complexity and diversity of the tax credit programs administered by DED. This report was focused on the broad spectrum of tax credit programs. No effort was made to evaluate the twenty-two tax credit programs individually.

Official responses from the Department of Economic Development and the Office of Administration are included as appendices to this report. We acknowledge the cooperation and assistance of the Department of Economic Development during the evaluation process.

We did not examine departmental financial statements and do not express an opinion on them.



Jeannie Jarrett, CPA, CGFM
Director

APPENDIX 1

UNAUDITED

| | 1995----- | | | 1994----- | | | 1993----- | | | |
|----------------------------|----------------------|------------|-------------|----------------------|------------|------------|----------------------|------------|--------------|--|
| | Approved Tax Credits | | | Approved Tax Credits | | | Approved Tax Credits | | | |
| | Per DED | Per DOR | Difference | Per DED | Per DOR | Difference | Per DED | Per DOR | Difference | |
| Business Facility | 5,071,561 | 4,950,549 | 121,012 | 5,482,063 | 5,959,127 | (477,064) | 4,698,242 | 4,736,644 | (38,402) | |
| Development Reserve | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Enterprise Zone | 49,454,350 | 53,788,024 | (4,333,674) | 43,947,728 | 38,602,395 | 5,345,333 | 45,983,725 | 43,840,993 | 2,142,732 | |
| Neighborhood Assistance | 12,575,365 | 9,080,836 | 3,494,529 | 13,913,158 | 10,574,023 | 3,339,135 | N/A | 11,901,917 | (11,901,917) | |
| Seed Capital | 423,405 | 182,385 | 241,021 | 390,442 | 399,959 | (9,517) | 100,250 | 130,478 | (30,228) | |
| Small Business Incubator | 65,000 | 117,500 | (52,500) | 75,500 | 1,047,858 | (972,358) | 372,358 | 50,000 | 322,358 | |
| Infrastructure Development | 3,639,000 | 3,791,913 | (152,913) | 9,586,550 | 6,809,212 | 2,777,338 | 38,450 | 38,450 | 0 | |
| Export Finance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Low Housing | 2,078,849 | 643,824 | 1,435,025 | 2,202,787 | 171,968 | 2,030,819 | N/A | 97,959 | (97,959) | |
| Job Credit | 3,695,728 | 7,161,801 | (3,466,073) | 3,330,374 | 2,448,112 | 882,262 | N/A | 3,308,039 | (3,308,039) | |
| Affordable Housing | 5,053,612 | 2,674,258 | 2,379,354 | 3,367,152 | 1,740,735 | 1,626,417 | N/A | 417,615 | (417,615) | |
| Small Business Investment | 157,300 | 207,097 | (49,797) | 560,571 | 175,245 | 385,326 | 97,772 | 1,514 | 96,258 | |
| Research Expense | 77,045 | 48,793 | 28,252 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Community Bank / Community | 31,020 | 0 | 31,020 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Abandoned Property | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Youth Opportunities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Certified Capital | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Missouri Build | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Development Tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Historic Preservation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Bond Guarantee | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Total | 82,322,235 | 82,646,980 | (324,745) | 82,856,325 | 67,928,635 | 14,927,689 | 51290796.74 | 64,523,610 | (13,232,813) | |

UNAUDITED

| | 1998----- | | | 1997----- | | | 1996----- | | |
|----------------------------------|----------------------|-------------|--------------|----------------------|-------------|-------------|----------------------|-------------|--------------|
| | Approved Tax Credits | | | Approved Tax Credits | | | Approved Tax Credits | | |
| | Per DED | Per DOR | Difference | Per DED | Per DOR | Difference | Per DED | Per DOR | Difference |
| Business Facility | 6,756,177 | 9,222,263 | (2,466,086) | 5,573,939 | 7,786,144 | (2,212,205) | 5,027,742 | 5,295,774 | (268,032) |
| Development Reserve | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Enterprise Zone | 62,625,448 | 62,850,804 | (225,356) | 60,837,613 | 61,910,566 | (1,072,953) | 48,674,140 | 52,163,385 | (3,489,245) |
| Neighborhood Assistance | 11,878,782 | 10,063,564 | 1,815,218 | 16,896,804 | 9,976,364 | 6,920,440 | 12,541,264 | 9,051,389 | 3,489,875 |
| Seed Capital | 416,700 | 204,151 | 212,549 | 18,600 | 30,930 | (12,330) | 81,900 | 417,685 | (335,785) |
| Small Business Incubator | 20,500 | 24,250 | (3,750) | 10,000 | 20,000 | (10,000) | 96,250 | 137,500 | (41,250) |
| Infrastructure Development | 3,870,000 | 24,663,507 | (20,793,507) | 5,628,000 | 5,800,907 | (172,907) | 2,379,000 | 2,377,623 | 1,377 |
| Export Finance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Low Housing | 6,704,187 | 3,281,690 | 3,422,497 | 4,296,544 | 2,079,136 | 2,217,408 | 2,708,577 | 1,118,991 | 1,589,586 |
| Job Credit | 7,791,944 | 9,649,076 | (1,857,132) | 5,739,603 | 8,008,862 | (2,269,259) | 6,393,596 | 27,209,295 | (20,815,699) |
| Affordable Housing | 6,773,282 | 4,468,791 | 2,304,491 | 9,219,950 | 5,845,053 | 3,374,897 | 5,945,880 | 1,270,798 | 4,675,082 |
| Small Business Investment | 2,488,634 | 2,838,032 | (349,398) | 823,136 | 897,339 | (74,203) | 725,583 | 792,705 | (67,122) |
| Research Expense | 16,817,414 | 16,839,694 | (22,280) | 2,916,348 | 3,226,468 | (310,120) | 3,613,481 | 3,319,348 | 294,133 |
| Community Bank / Community Devel | 120,000 | 159,678 | (39,678) | 7,758 | 184,278 | (176,521) | 54,000 | 21,000 | 33,000 |
| Abandoned Property | 5,450,000 | 0 | 5,450,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Youth Opportunities | 1,285,496 | 1,389,162 | (103,666) | 176,083 | 10,815 | 165,268 | 0 | 0 | 0 |
| Certified Capital | 5,000,000 | 5,000,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Missouri Build | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Development Tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Historic Preservation | 98,604 | 98,604 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bond Guarantee | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 138,097,168 | 150,753,266 | (12,656,097) | 112,144,378 | 105,776,863 | 6,367,515 | 88,241,413 | 103,175,493 | (14,934,080) |

N/A - not available

APPENDIX 2

DED - Tax Credit Program
Schedule of Tax Credits Claimed
6 Year Ending June 30, 1998

Appendix B

UNAUDITED

| | 1998----- | | | 1997----- | | | 1996----- | | |
|----------------------------|---------------------|---------------|------------|---------------------|---------------|------------|---------------------|---------------|-------------|
| | Tax Credits Claimed | | | Tax Credits Claimed | | | Tax Credits Claimed | | |
| | Per | Per | | Per | Per | | Per | Per | |
| | Expenditure | Department of | Difference | Expenditure | Department of | Difference | Expenditure | Department of | Difference |
| | Report | Revenue | | Report | Revenue | | Report | Revenue | |
| Business Facility | ** | 6,494,314 | | ** | 3,609,374 | | 5,500,000 | 3,993,517 | 1,506,483 |
| Development Reserve | ** | 0 | | ** | 0 | | 0 | 0 | 0 |
| Enterprise Zone | ** | 16,501,451 | | ** | 14,184,363 | | 14,200,000 | 17,070,090 | (2,870,090) |
| Neighborhood Assistance | ** | 6,911,083 | | ** | 7,817,298 | | 6,400,000 | 9,007,248 | (2,607,248) |
| Seed Capital | ** | 172,425 | | ** | 30,930 | | 50,000 | 475,574 | (425,574) |
| Small Business Incubator | ** | 23,908 | | ** | 78,211 | | 150,000 | 151,250 | (1,250) |
| Infrastructure Development | ** | 3,832,460 | | ** | 5,158,725 | | 3,500,000 | 3,797,597 | (297,597) |
| Export Finance | ** | 0 | | ** | 0 | | 0 | 0 | 0 |
| Low Housing | ** | 2,494,070 | | ** | 2,027,363 | | 2,200,000 | 1,072,649 | 1,127,351 |
| Job Credit | ** | 5,381,204 | | ** | 6,924,397 | | 6,300,000 | 5,881,505 | 418,495 |
| Affordable Housing | ** | 3,090,523 | | ** | 1,950,319 | | 1,400,000 | 2,195,048 | (795,048) |
| Small Business Investment | ** | 275,779 | | ** | 595,191 | | 600,000 | 338,012 | 261,988 |
| Research Expense | ** | 4,307,249 | | ** | 2,316,787 | | 4,100,000 | 1,288,245 | 2,811,755 |
| Community Bank | ** | 6,202 | | ** | 14,989 | | 100,000 | 19,963 | 80,037 |
| Abandoned Property | ** | 0 | | ** | 0 | | 0 | 0 | 0 |
| Youth Opportunities | ** | 54,269 | | ** | 0 | | 50,000 | 0 | 50,000 |
| Certified Capital | ** | 4,977,731 | | ** | 0 | | 0 | 0 | 0 |
| Missouri Build | ** | 0 | | ** | 0 | | 0 | 0 | 0 |
| Community Development | ** | 0 | | ** | 0 | | 0 | 0 | 0 |
| Development Tax | ** | 0 | | ** | 0 | | 0 | 0 | 0 |
| Historic Preservation | ** | 0 | | ** | 0 | | 0 | 0 | 0 |
| Bond Guarantee | ** | 0 | | ** | 0 | | 0 | 0 | 0 |
| Total | | \$54,522,666 | | | 44,707,946 | | 44,550,000 | 45,290,699 | (740,699) |

* * Expenditure Report not compiled identifying this data as of September 8, 1998

N/A - not available

UNAUDITED

| | 1995----- | | | 1994----- | | | 1993----- | | |
|----------------------------|---------------------|---------------|-------------|---------------------|---------------|-------------|---------------------|---------------|--------------|
| | Tax Credits Claimed | | | Tax Credits Claimed | | | Tax Credits Claimed | | |
| | Per | Per | | Per | Per | | Per | Per | |
| | Expenditure | Department of | Difference | Expenditure | Department of | Difference | Expenditure | Department of | Difference |
| | Report | Revenue | | Report | Revenue | | Report | Revenue | |
| Business Facility | 4,200,000 | 3,570,920 | 629,080 | 3,200,000 | 4,162,142 | (962,142) | 3,500,000 | 3,545,921 | (45,921) |
| Development Reserve | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Enterprise Zone | 12,600,000 | 13,564,644 | (964,644) | 11,500,000 | 12,874,924 | (1,374,924) | 6,400,000 | 17,420,827 | (11,020,827) |
| Neighborhood Assistance | 5,600,000 | 9,444,549 | (3,844,549) | 5,100,000 | 11,506,171 | (6,406,171) | 5,000,000 | 10,501,042 | (5,501,042) |
| Seed Capital | 100,000 | 185,251 | (85,251) | 400,000 | 339,981 | 60,019 | 350,000 | 135,481 | 214,519 |
| Small Business Incubator | 100,000 | 299,858 | (199,858) | 100,000 | 53,000 | 47,000 | 200,000 | 50,000 | 150,000 |
| Infrastructure Development | 3,400,000 | 2,652,684 | 747,317 | 2,100,000 | 430,604 | 1,669,396 | 950,000 | 25,025 | 924,975 |
| Export Finance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Low Housing | 1,900,000 | 642,448 | 1,257,552 | 900,000 | 172,973 | 727,027 | 500,000 | 96,974 | 403,026 |
| Job Credit | 3,800,000 | 3,392,819 | 407,181 | 4,000,000 | 3,330,374 | 669,626 | 2,600,000 | 2,068,399 | 531,601 |
| Affordable Housing | 1,900,000 | 1,549,417 | 350,583 | 300,000 | 238,004 | 61,996 | 600,000 | 228,899 | 371,101 |
| Small Business Investment | 450,000 | 198,109 | 251,891 | 50,000 | 171,507 | (121,507) | 200,000 | 0 | 200,000 |
| Research Expense | 2,200,000 | 42,954 | 2,157,046 | 900,000 | 0 | 900,000 | 50,000 | 0 | 50,000 |
| Community Bank | 100,000 | 0 | 100,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Abandoned Property | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Youth Opportunities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Certified Capital | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Missouri Build | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Community Development | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Development Tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Historic Preservation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bond Guarantee | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 36,350,000 | 35,543,652 | 806,348 | 28,550,000 | 33,279,679 | (4,729,679) | 20,350,000 | 34,072,569 | (13,722,569) |

APPENDIX 3



Mel Carnahan
Governor

Joseph L. Driskill
Director

June 3, 1999

Jeanne Jarrett, CPA, Director
Oversight Division
Committee on Legislative Research
State Capitol, Room 132
Jefferson City, MO 65101

Dear Jeanne:

Attached is the Department of Economic Development's response to the tax credit review performed by your staff dated December 1998. We submitted a response to an earlier version of this report but wanted to ensure that we accurately responded to the changes made in this most recent version.

I would like to make a general comment about my concern that the examples of incentives used in the review do not indicate the positive effects that tax credit programs have on Missouri's economy. As you know, the Department of Economic Development is required by law to perform a cost/benefit analysis on each use of discretionary resources to prove the likely fiscal return to the state. In the narrative of the review, reference is only given to the "cost" of tax credit programs and no mention is made of the positive effects of these programs. A balanced view of the costs and benefits of Missouri's tax credit programs would likely better reflect their actual impact on the economy of the state.

While we do not concur with all of the findings in your review, I believe that many of the issues raised by your staff will be very helpful to us as we continue to improve the quality of our tax credit program services. I particularly want to express my appreciation to your staff for the professional manner in which they conducted themselves. They were thorough in their examination of our records and offered helpful suggestions to our management and program staff.

If you have any questions regarding our response, please feel free to contact me or Mark Rehagen at 751-4996.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Joseph L. Driskill". The signature is fluid and cursive, with the first name "Joseph" and last name "Driskill" clearly legible.

Joseph L. Driskill

c: Julie Gibson



Department of Economic Development
Responses to Tax Credit Review
Conducted by the Oversight Division and dated December, 1998

FINDING #1 (Page 14)

Significant differences exist between amounts reported in statutorily required tax expenditure reports and the Department of Revenue's records of tax credits claimed.

RECOMMENDATION (Page 14, paragraph 5)

Oversight recommends that the Office of Administration, the Department of Economic Development, and the Department of Revenue reconcile differences between the tax expenditure report and amounts reported as claimed to state agencies and determine the cause for the differences.

AGENCY RESPONSE

Any difference between the Department of Economic Development's reports and reports generated by other agencies may be due to the timing difference between the authorization of tax credits and their redemption. For example, when the Department of Economic Development (DED) issues a tax credit and informs other agencies that it has been issued, that credit may be redeemable in a future fiscal year. In several instances, the tax credits can be "carried forward" for a period of up to twenty years. Therefore, our reports indicating tax credits issued very seldom will match a report of tax credit redemption during that same year, since the DED does not know and cannot predict with great accuracy in which year the taxpayer with the tax credit will redeem such credit, if ever.

To help alleviate this issue, however, the DED has made significant progress in developing a new, automated tax credit reporting system that will be in place within the next few months. This new reporting system will provide up-to-date information to the Department of Revenue (DOR) on tax credits issued. In the course of meetings with the Department of Revenue, we have also discussed ways of offering this system to DOR so that their staff can enter tax credit redemption data. This inter-departmental cooperation will eliminate the need for dual accounting systems and would provide for better reconciliation of credits issued and credits claimed.

FINDING #2 (Page 15)

The Department of Economic Development does not reconcile the amount of tax credits it approves to the amount reported as approved by the Department of Revenue. The differences have been as much as \$14 million for one year.

RECOMMENDATION (Page 15, paragraph 5)

Oversight recommends that the General Assembly request the Department of Economic Development (DED) work with the Department of Revenue (DOR) to create and implement a system that would allow for monthly reconciliation of tax credits approved by DED and approved tax credits entered into the DOR Tax Credit System Transaction Tracking Report. Oversight also recommends that DED implement proper controls to ensure the integrity of their data.

AGENCY RESPONSE

See response to Finding #1 above.

FINDING #3 (Page 15)

Overall, the tax credit programs administered by the Department of Economic Development lack fiscal accountability.

RECOMMENDATION (Page 16, paragraph 1)

Oversight recommends that the General Assembly consider funding an internal audit staff within the Department of Economic Development to promote fiscal accountability.

AGENCY RESPONSE

The DED believes that it has done a good job of protecting the interests of all taxpayers with the limited resources appropriated for this task and with the statutory authority given to exercise administrative oversight. Further, the DED believes there are no substantial fiscal accountability problems in the administration of the tax credit programs. However, the DED approached the Office of Administration, Division of Budget and Planning to request funding for a compliance unit to ensure taxpayers are complying with applicable laws in each instance.

FINDING #4 (Page 16)

Projecting the fiscal impact of new or expanding tax credit programs is difficult and sometimes immeasurable.

RECOMMENDATION (Page 17, paragraph 17)

Oversight recommends the General Assembly consider creating a review period for new or expanded tax credits, perhaps the first three to five years following implementation.

AGENCY RESPONSE

The DED agrees that projecting the fiscal impact of new or expanding tax credit programs is difficult and sometimes immeasurable. This is especially true when new programs are created, at which time no history of use within the state can be used to estimate the impact of the program. It is usually less difficult to estimate a change to an existing program, since assumptions generally can be made to already existing information.

Included in legislation which passed this session (TAFP HB 701) is a provision which creates general oversight and reporting provisions for all tax credit programs administered by the Department of Economic Development and the Missouri Development Finance Board. These new reporting requirements will provide the General Assembly with additional information on the state's tax credit programs on an annual basis with which to assess their effectiveness.

FINDING #5 (Page 18)

Businesses seeking financial incentives are not able to find consistent assistance because economic development incentives have been enacted in an ad hoc manner.

RECOMMENDATION (Page 18, paragraph 4; page 19, paragraphs 1 and 2)

Oversight recommends the General Assembly consider establishing a joint interim committee to examine existing programs to see how they fit into the classifications developed by DED. Programs which serve the same purpose might be merged and, if some areas are not served by an incentive program, new programs to serve those areas should be considered. As noted in this report (finding 8), the General Assembly should appropriate money for a study of all state economic development programs, which would result in "rationalization" of those programs.

The state of Ohio is currently undertaking such a study. In addition, DED should work with the General Assembly to identify those legislative changes that need to be made to facilitate the implementation of a one-stop application process.

AGENCY RESPONSE

The various tax credit programs and other financial incentives administered by DED have been proposed and approved by the General Assembly over the past 21 years. Obviously, different General Assemblies have written legislation in a variety of ways, depending on when it was approved and the type of tax credit or other incentive considered. In many cases, tax credits or other incentives that were enacted were not originally conceived by DED. Some of the tax credits and other incentives were not supported by DED.

Even though the various tax credit and other incentive programs appear to be different in many aspects, most of the programs have great similarities. In most cases, businesses and local development organizations do not have great difficulty in understanding the operation of tax credit or other incentive programs operated by DED. Persons seeking information regarding the incentive programs applicable to their situations may access the Finance Network on the DED Internet site at ecodev.state.mo.us/cd/finance.

While the DED would welcome an opportunity to participate in a project to make the DED tax credit programs and other incentives more customer friendly, the DED does not believe it is necessary to form a joint interim committee to accomplish this. The DED would offer its services to any member or standing committee of the General Assembly to begin working on this issue.

FINDING #6 (Page 19)

The Export Finance Fund tax credit has not been utilized since its inception.

RECOMMENDATION (Page 19, paragraph 4)

Oversight recommends that the General Assembly consider legislative changes that would repeal Section 100.250 (5) (Export Finance).

AGENCY RESPONSE

The DED has already proposed that the legislation creating the Export Finance Fund tax credit program be repealed, due to lack of interest and demand from our customers and those of the Missouri Development Finance Board.

FINDING #7 (Page 20)

The Department of Economic Development does not have in place a system to monitor the amount of tax credits approved, claimed, and outstanding.

RECOMMENDATION (Page 20, paragraph 2)

Oversight recommends that the General Assembly request the Department of Economic Development (DED) work with the Department of Revenue (DOR) to create and implement a system that would allow for monthly reconciliation of tax credits approved by DED and approved tax credits entered into the DOR Tax Credit System Transaction Tracking Report. Oversight also recommends that DED implement proper controls to ensure the integrity of their data.

AGENCY RESPONSE

See response to Finding #1 above.

FINDING #8 (Page 20)

The Department of Economic Development does not have in place verification procedures of eligible expenses for the Qualified Research Expense Tax Credit.

RECOMMENDATION (Page 20, Paragraph 2)

Oversight recommends that the General Assembly consider a legislative change requiring documentation or verification of qualified research expenses incurred before issuing the tax credits.

AGENCY RESPONSE

In 1997, the DED put into place a policy that requires applicants for a Qualified Research Expense Tax Credit to submit either a federal form 6765 or a worksheet detailing the research expenses of the company. DED staff do not process Qualified Research Expense Tax Credit applications without this verification. By signing the application form, the taxpayer certifies that the information submitted is correct and complete, and is otherwise subject to prosecution if the information on the application is false or misleading.

FINDING #9 (Page 21)

The statutory independent cost benefit analysis to evaluate the effectiveness of tax credit, loan, loan guarantee, or grant programs administered by the Department of Economic Development has not been performed.

RECOMMENDATION (Page 22, paragraph 1)

Oversight recommends that the General Assembly encourage the Department of Economic Development and the Office of Administration to comply immediately with Section 620.1300 RSMo, Cum. Supp. 1997, and should consider funding the study regularly every four years.

AGENCY RESPONSE

Although the General Assembly has required the Office of Administration to hire a firm to perform the statutory independent cost benefit analysis, this effort has not yet been funded. Even though it is not our statutory responsibility, the DED requested funds for FY 99 for this purpose, but the request was not approved.

During this current fiscal year, the DED secured the contractual services of a major international accounting firm to conduct an independent tax credit review. Several state agencies, including the Office of Administration, and groups outside of state government, have provided funding assistance to make this tax credit review possible. The desired outcome of the study is a benefit/cost analysis of all of the tax credit programs administered directly by our department and those of the Missouri Development Finance Board. The results of that study are expected by the early part of summer of 1999.

FINDING #10 (Page 22)

The Department of Economic Development Capital Tax Credit Program prepared tax credit authorization forms more than six months in advance of their effective date.

RECOMMENDATION (Page 22, paragraph 3)

Oversight recommends that the Department of Economic Development (DED) not allocate or authorize tax credits prior to the funds being available for distribution.

AGENCY RESPONSE

During the 1998 legislative session, the General Assembly approved HB 1656, which authorizes an additional \$8,000,000 of tax credits in the Capital Tax Credit Program, effective January 1, 1999, since the \$5,000,000 of tax credits previously authorized had been fully expended. After Governor Carnahan signed the legislation into law, the DED staff resumed its review of Capital Tax Credit applications and prepared tax credit "authorizations" for all eligible projects. These authorizations were held in the Office of Business Finance and were mailed after January 1, 1999, the effective date of the Capital Tax Credit section of HB 1656. Staff in the DED believe it would have been an inefficient use of time to wait until January 1, 1999, to begin their review of those same projects.

FINDING #11 (Page 22)

The Department of Economic Development – Capital Tax Program does not verify that businesses that receive tax credits are in compliance with statutory requirements.

RECOMMENDATION (Page 23, paragraph 5)

Oversight recommends that the General Assembly encourage the Department of Economic Development to examine and monitor these reported investments at least on a sample basis. In addition, DED should discuss with the Department of Revenue tax credit monitoring issues that would be of benefit to each agency.

AGENCY RESPONSE

The DED has not exceeded its statutory cumulative limit in the Capital Tax Program by \$9,604, as was stated in part "a" of the Oversight Division's narrative on this issue. There were two applications for tax credits that were received and in the database, but an official authorization has not been made. Staff have authorized \$4,998,004.11 in tax credits. This situation was discussed with Oversight staff during the audit.

Parts "b" through "d" of this finding relate to verification of compliance with statutory requirements by DED staff. The DED requires approved companies to submit verification at least annually regarding the eligibility requirements stated in the statutes. The companies declare in writing that the information is correct and complete.

Even though the DED does not believe there is misuse or misrepresentation by applicants in this program, the DED approached the Office of Administration, Division of Budget and Planning, to request funding for a compliance unit to ensure program applicants are complying with applicable laws.

FINDING #12 (Page 23)

The Department of Economic Development – Seed Capital Program has not encouraged investment of seed capital by private sources in Missouri.

RECOMMENDATION (Page 24, paragraph 2; page 25, paragraphs 1, 2 and 3)

Oversight suggests there are two possible approaches which could ensure continuing support for seed/initial investments in Missouri. They are that:

- The General Assembly consider authorizing enough new credits to leverage a "critical mass" of different investments by private investors so that qualified investment companies would continue to make investments even after they have used

available credits. This would probably require authorization of a comparatively large aggregate amount of credits (\$50,000,000), or

- The state could consider making a certain amount of seed/initial capital credits available on a continuing basis. For example, instead of having an aggregate limit of \$5,000,000 on seed capital credits, have \$5,000,000 in credits available at any given time. As credits are used, DED could approve new credits but there would never be more than \$5,000,000 outstanding at any one time. A "revolving" credit would allow flexibility to take advantage of them.

In addition, Oversight also recommends that if the General Assembly would opt to make significant additional seed capital incentives available then persons involved in operating qualified investment funds should at a minimum meet the Small Business Administration standards for operators of Small Business Investment Companies.

AGENCY RESPONSE

As of July 31, 1998, the DED had authorized \$4,848,418 in Seed Capital tax credits of the \$5,000,000 authorized. Hence, unless the \$5,000,000 cap is lifted or the program is made into a revolving tax credit program as recommended by the Oversight Division, this program is virtually extinct.

However, through House Bill 1656, passed by the General Assembly during the 1998 Legislative Session and signed by the Governor, the ceiling on the Seed Capital Tax Credit Program was raised by \$4 million dollars for investments made into distressed communities and the amount of the credit was increased to 50% from 30%.

The DED has long recognized the need for greater seed capital availability in order to ensure Missouri has a strong economic future. In response to that need, the DED entered into a partnership with various local development organizations to assist in writing legislation, known as the "New Enterprise Creation Act", which was passed this legislative session as part of TAFP SB 518. The legislation, if signed, would commit twenty million dollars over four years (five million dollars per year) to provide qualified, very early stage businesses with a portion of the "seed" capital they need in order to raise their chances of success. Money in the seed capital fund would be obtained by the offering of 100% state income tax credits in exchange for contributions to the fund. The legislation would establish the Missouri Seed Capital Investment Board at the state level to provide governance and oversight for the program and would authorize the creation of local seed capital funds in conjunction with the state's innovation centers. The local seed capital funds would be required to employ professional fund managers to operate the local seed investment programs.

The Missouri Seed Capital Investment Board, in consultation with the Director of the Department of Economic Development, would approve the professional managers employed by the local seed capital fund investment programs according to criteria similar to that employed by the U.S. Small Business Administration Small Business Investment Program.

FINDING #13 (Page 25)

The Department of Economic Development – Enterprise Zone Tax Credit Program does not verify jobs created or the amount of investment required by the creation or expansion of a business.

AGENCY RESPONSE

Businesses that provide false or misleading information regarding the number of new jobs created or the amount of private funds invested in an expansion or location project are subject to prosecution under the state's tax laws.

Although the statutes do not require the DED to verify the number of new jobs created as a result of the provision of Enterprise Zone tax benefits, the DED plans to use information recently made available from the Department of Labor and Industrial Relations (DOLIR), Division of Employment Security (ES), and other state, federal and local agencies to supplement information provided by employers of new jobs actually created. This will be a more reliable and efficient method of verification than solely collecting it from businesses.

Even though the DED does not believe there is misuse or misrepresentation by applicants in this program, the DED approached the Office of Administration, Division of Budget and Planning to request funding for a compliance unit to ensure taxpayers are complying with applicable laws.

FINDING #14 (Page 26)

The Department of Economic Development – Enterprise Zone Tax Credit Program is not monitoring enterprise zone applicants in a timely manner.

RECOMMENDATION (Page 26, paragraph 1)

Oversight recommends that the Department of Economic Development (DED) perform on-site internal audits of the applicants on a sample basis to verify the compliance with statutory requirements.

AGENCY RESPONSE

Although the statutes do not require the DED to perform on-site audits of Enterprise Zone Tax Credit projects, it would be a good business practice to perform such audits. Even though the DED does not believe there is misuse or misrepresentation by applicants in this program, the DED approached the Office of Administration, Division of Budget and Planning to request funding for a compliance unit to ensure taxpayers are complying with applicable laws.

FINDING #15 (Page 26)

Not all proposals for Neighborhood Assistance tax credits submitted to the Department of Economic Development included the required written local public authority endorsement.

RECOMMENDATION (Page 27, paragraph 2)

Oversight recommends that the Department of Economic Development – Neighborhood Assistance Tax Credit Program comply with the rules and regulations of the program.

AGENCY RESPONSE

Since FY 93, the DED policy has been that all applications for Neighborhood Assistance Tax Credits must be accompanied by a form created by the NAP staff that indicates local public authority certification. Prior to FY 93, project endorsement letters signed by the appropriate local government (city or county) official were accepted. These letters were reviewed and filed by the NAP staff.

FINDING #16 (Page 27)

The Department of Economic Development – Neighborhood Assistance Tax Credit Program has not maintained financial and compliance audit records of projects as required by the project agreement.

RECOMMENDATION (Page 27, paragraph 4)

Oversight recommends that the Department of Economic Development – Neighborhood Assistance Program (NAP) obtain and retain the financial and compliance audit records for NAP projects as required by the NAP project agreement.

AGENCY RESPONSE

The Oversight staff is referring to a collection of financial and audit records that is not required by law.

The DED believes it is a good business practice to obtain and retain financial and compliance audit records, and DED has placed this requirement in its standard NAP project agreement. However, between early 1996 and August, 1997, the DED did not in every case collect this information at the appropriate time. Staff recognized this oversight in early 1998, began at that time to examine all projects initiated since FY 95, and contacted projects that were deficient in this area. Staff will continue to track those projects that do not send the necessary records for these projects.

FINDING #17 (Page 28)

A Department of Economic Development employee is receiving compensation from an outside organization that could result in a conflict of interest.

RECOMMENDATION (Page 28, paragraph 2)

Oversight recommends that the General Assembly request the Department of Economic Development (DED) to implement a policy prohibiting employees from engaging in activities which might conflict with their DED duties. In addition, Oversight recommends the General Assembly consider increasing the funding for key positions to 100%.

AGENCY RESPONSE

DED believes that in this particular situation, having one person perform functions for both the department and the "outside organization" is beneficial. It helps with coordination of the functions in which both DED and the outside organization are involved, especially foreign trade missions. DED has previously received an opinion from the Missouri Ethics Commission in another somewhat similar matter involving dual roles in which the Commission found no conflict to exist and did not express that the situation should be avoided in its entirety because of any potential for conflicts. It simply stated that actual conflicts should be avoided – that the law must be complied with. In accord with that opinion, it is DED's view that taking careful measures to avoid violations of the law in this situation is also a lawful and wholly adequate manner to address this dual role. The employee in question is well aware of the ethics provisions and has done nothing to cause DED concern about him acting in violation of the ethics laws. Moreover, DED itself takes careful measures to protect against an actual conflict of interest arising in this situation, as set forth below.

Most of the tax credits administered by the section which this employee supervises are formula-based programs, which means no employee in the section has discretion over whether tax credits are approved or how much. The only discretionary tax credit programs that this section administers are BUILD, Development tax credits and Brownfield tax credits.

In the case of BUILD, the employee in question receives a recommendation from staff and forwards a recommendation to the Director of the DED. The Director of the DED then presents the project to the Missouri Development Finance Board (MDFB), which has sole approval authority over the tax credits in this program. There is a very open line of communication between staff and administration such that it would be extremely unlikely that the employee in question could have an improper decisive effect. As such, it is unlikely that an inappropriate project could result or that an appropriate project would be stifled.

In the case of the Brownfield and Development tax credit programs, this employee is but one person in a chain of review and approvals similar to BUILD, but which ends with the Director of the DED. As such, and for similar reasons set forth regarding BUILD, it is highly unlikely that an inappropriate project could result or that an appropriate project would be stifled. Should a member or contributor of this outside organization apply for these programs, the employee in question can and will abstain from the evaluation process for those projects.

During the period that this employee has worked for DED, no current members or contributors of the outside organization were identified as recipients of the discretionary issuance of any tax credits by the DED.

DED's Response to Chapter 5 - Conclusion and Recommendations (Page 29)

The Oversight Division's remarks in Chapter 5 of their report, because they are of a very general nature, do not create a fair and accurate portrayal of the administration of tax credit programs by the DED.

Readers of this report that first study the Conclusion and Recommendations Section would not be informed of the unique characteristics of Missouri's statutorily-enacted tax credit programs and, therefore, the administrative functions required for their effective and efficient operation. It is essential that the Oversight Division's separate findings, located in the primary document, along with the Department's responses to each finding, located in the appendix, be read together to understand the tax credit system in Missouri. Without the background information provided throughout the document, the reader could conclude that the tax credit programs are operated in a manner that is at times inconsistent and ineffective. The department has the utmost confidence that this is not the case. The DED continues to operate all tax credit programs to the best of the agency's ability and to the extent the General Assembly has enacted and funded them.

The Oversight Division mentions that the amount of tax credits authorized between 1993 and 1998 has grown to \$150 million, an increase of 134% during that period of time. However, the amount of those authorized tax credits that has been claimed is substantially less. Other information which would be helpful in understanding the aforementioned statement is a summary of legislative changes to tax credit programs in recent years, including both the enactment of new tax credit programs and the increase of certain programs' statutory tax credit caps. The DED's responsibility is to administer the tax credit programs as enacted and funded by the General Assembly. The changes made through legislation in recent years and the increase mentioned are a direct cause and effect relationship.

All other claims made by the Oversight Division staff in Chapter 5 have been addressed in the DED's responses to the separate findings:

Conclusions and Recommendations in Chapter 5

DED's Response

"For fiscal years 1994 through 1997, Oversight also found significant differences between the individual tax credits approved by the DED and the Department of Revenue's tax credit tracking report. These differences ranged from approximately \$300,000 in one fiscal year to over \$14,000,000 in another" (Page 30, paragraph 1, lines 4-7).

See Finding # 1

"DED is not able to determine how much of an approved tax credit has been claimed, when it was claimed, or how much remains to be claimed. Because DED is now approving over \$100 million in new tax credits annually, accurate records of the amount of tax credits approved, claimed and outstanding are essential to effectively project the potential reduction of revenue to the state as a result of the future use of outstanding credits" (Page 30, paragraph 1, lines 13-18).

See Finding #1

"Overall, Oversight concludes the tax credit programs administered by DED lack fiscal accountability. Among Oversight's recommendations is the implementation of an internal audit function within the Department" (Page 30, paragraph 1, lines 18-21)

See Finding #3

"Oversight recommends the DED develop a classification system which could be used to guide applicants to the most appropriate incentive programs" (Page 30, paragraph 2, lines 5-7).

See Finding #5

"Oversight recommends the General Assembly consider creating a review period for new or expanded tax credits, perhaps the first three to five years following implementation" (Page 30, paragraph 3, lines 7-9).

See Finding #4

"Oversight recommends consideration be given to repealing the section of law which created it [Export Finance Fund Tax Credit]" (Page 31, paragraph 1, lines 1 and 2).

See Finding #6

"During our review, we noted that the statutory limit on the amount of these credits was exceeded; that program personnel do not verify funds received from investors are used for new capital improvements, research and development, and certain working capital expenditures; that program personnel do not verify qualified small businesses are headquartered in Missouri and employ less than one hundred employees; that program personnel do not verify investments made in a qualified Missouri small business remains in the qualified small business for at least five years from the date of the investment" (Page 31, paragraph 2, lines 5-12).

Seeing Finding #8

"The DED also does not require verification of new jobs created and minimum investment required as a result of the creation or expansion of a business in the Enterprise Zone Tax Credit Program" (Page 31, paragraph 2, lines 12-15).

See Finding #11

“Oversight recommends the General Assembly consider the following legislative changes:

Consideration of repealing Section 100.250 (5) RSMo, relating to the Export Finance Credit” (Page 31, paragraph 5).

See Finding #6

“Consideration of a legal requirement for taxpayers to supply documentation or verification of Qualified research expenses incurred before DED may issue the tax credits” (Page 31, paragraph 6).

See Finding #8

“Consideration of a review period for new or expanding tax credit programs, perhaps during the first three to five years following implementation” (Page 31, paragraph 7).

See Finding #4

“Consideration of changes to seed capital incentives, sufficient to ensure continuing support for seed/initial investments in Missouri” Page 32, paragraph 1).

See Finding #12

“Oversight recommends the following administrative changes:

The Office of Administration, Department of Economic Development and the Department of Revenue should immediately work to reconcile differences between the tax expenditure report and amounts reported as claimed to state agencies” (Page 32, paragraph 3).

See Finding #1

“The DED should work with the DOR to create and implement a system that would allow for monthly reconciliation of tax credits approved by year, tax credits claimed by year, and tax credits outstanding by year approved. In addition proper controls should be put into place to ensure the integrity of the data. For budgeting purposes, the General Assembly should be advised on the total potential tax credits outstanding with predictions on the expected amounts to be claimed annually” (Page 32, paragraph 4).

See Finding #1

“The DED should implement monitoring, reporting and/or compliance procedures to ascertain that those receiving tax credits have met the requirements of the various tax credit programs. This could include on-site reviews if the applicants on a sample basis, monitoring reported investments on a sample basis, obtaining financial and compliance audit records, etc. In addition the DED should consider working with the DOR in on-site or audit activities of the tax credits” (Page 32, paragraph 5).

See Finding #11

“To ensure fiscal accountability, the DED should consider forming an internal audit staff to oversee the implementation of accounting systems and the ongoing monitoring of the Department’s accounting matters” (Page 32, paragraph 6).

See Finding #3

“The DED should develop a classification system, and streamline the application forms to simplify the tax credit application process and make it more user-friendly” (Page 32, paragraph 7).

See Finding #5



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Mel Carnahan
Governor

Richard A. Hanson
Commissioner

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DEC 04 1998

OVERSIGHT DIVISION

MEMORANDUM

TO: Michael Wilson
Oversight Division

FROM: Dick Hanson *DH*
Office of Administration

DATE: December 2, 1998

SUBJECT: Tax Credit Programs

Staff has reviewed the draft findings and recommendations from the Evaluation of 1998 Tax Credit Programs. Attached are the Agency Responses to the two recommendations you forwarded for review.

Thank you for the opportunity to review and comment on the draft report. Please feel free to contact Mark Ward or me if you would like to discuss either of the issues in further detail.

Attachment

c: Mark Ward

Oversight Division
Evaluation 1998
Tax Credit Programs

Agency Response

Recommendation 1: From the information contained in the Oversight Division report, we are unable to tell if the match of "tax credits claimed" in the tax expenditure report and the Department of Revenue information is an appropriate or valid comparison. Furthermore, "tax credits claimed" is not the sole determinant of state revenue flows from tax credit for a given fiscal period. The Office of Administration will consult with the Department of Revenue and the UM School of Business and Public Administration to determine if there is a difference, and if so, the causes for such.

Recommendation 2: A cost benefit analysis of certain economic development programs pursuant to Section 33.282 RSMo was performed in 1995. Actions are underway to fund an updated analysis.

APPENDIX 4

Missouri Tax Credits, FY-96-98

| FY - 96 | Bus. Facility | Ent. Zone | Development | Research | Build | Brwnfd-Remedtn | Brwnfd-EZ |
|--|---------------|----------------|---------------|---------------|---------------|----------------|--------------|
| Credits Authorized - FY 96 | \$ 5,027,742 | \$ 48,687,841 | \$ 1,962,500 | \$3,613,481 | n/a | \$ 59,291,564 | n/a |
| Credits Issued - FY 96 | \$ 5,027,742 | \$ 48,687,841 | \$ 850,000 | \$3,613,481 | n/a | \$ 58,179,064 | n/a |
| Credits Authorized - FY 96 - STL area | \$ 2,248,486 | \$ 4,676,394 | \$ - | n/a | n/a | \$ 6,924,880 | n/a |
| Credits Authorized - FY 96 - KC area | \$ 271,472 | \$ 4,181,654 | \$ 250,000 | n/a | n/a | \$ 4,703,126 | n/a |
| Percent credits redeemed of Issued- FY 96 | 79% | 32% | (Inc. In NAP) | 92% | n/a | 39% | n/a |
| Credits Redeemed - FY 96 | \$ 3,993,517 | \$ 15,660,275 | (Inc. In NAP) | \$3,319,348 | n/a | \$ 22,973,140 | n/a |
| Total redeemed, Inc. Mod., Refund - FY 96 | \$ 3,993,517 | \$ 21,369,727 | (Inc. In NAP) | \$ 3,319,348 | \$ - | \$ 28,682,592 | n/a |
| FY - 97 | Bus. Facility | Ent. Zone | Development | Research | Build | Brwnfd-Remedtn | Brwnfd-EZ |
| Credits Authorized - FY 97 | \$ 5,668,681 | \$ 60,837,613 | \$ - | \$ 2,916,348 | \$ 20,735,585 | \$ 90,158,227 | n/a |
| Credits Issued - FY-97 | \$ 5,668,681 | \$ 60,837,613 | \$ - | \$ 3,226,468 | \$ - | \$ 69,732,762 | n/a |
| Credits Authorized - FY 97 - STL area | \$ 2,305,534 | \$ 6,646,008 | \$ - | n/a | \$ - | \$ 8,951,542 | n/a |
| Credits Authorized - FY 97 - KC area | \$ 545,324 | \$ 4,607,486 | \$ - | n/a | \$ - | \$ 5,152,810 | n/a |
| Percent credits redeemed of Issued - FY 97 | 64% | 22% | (Inc. In NAP) | 72% | 0% | 28% | n/a |
| Credits Redeemed - FY 97 | \$ 3,609,374 | \$ 13,429,074 | (Inc. In NAP) | \$ 2,316,787 | \$ - | \$ 19,355,235 | n/a |
| Total redeemed, Inc. Mod., Refund - FY 97 | \$ 3,609,374 | \$ 18,769,239 | (Inc. In NAP) | \$ 2,316,787 | \$ - | \$ 24,695,400 | n/a |
| FY - 98 | Bus. Facility | Ent. Zone | Development | Research | Build | Brwnfd-Remedtn | Brwnfd-EZ |
| Credits Authorized - FY 98 | \$ 6,841,101 | \$ 62,719,168 | \$ 500,000 | \$ 16,839,693 | \$ 18,423,249 | \$ 105,323,211 | \$ 2,750,000 |
| Credits Issued - FY-98 | \$ 6,841,101 | \$ 62,719,168 | \$ 500,000 | \$ 16,839,693 | \$ - | \$ 86,899,962 | \$ - |
| Credits Authorized - FY 98 - STL area | \$ 4,267,173 | \$ 5,223,661 | \$ - | n/a | \$ - | \$ 9,490,834 | \$ 2,000,000 |
| Credits Authorized - FY 98 - KC area | \$ 199,261 | \$ 11,225,491 | \$ - | n/a | \$ - | \$ 11,424,752 | \$ - |
| Percent credits redeemed of Issued - FY 98 | 107% | 27% | (Inc. In NAP) | 27% | 0 | 33% | 0 |
| Credits Redeemed - FY 98 | \$ 7,310,027 | \$ 16,892,628 | (Inc. In NAP) | \$ 4,623,277 | \$ - | \$ 28,825,932 | \$ - |
| Total redeemed, Inc. Mod., Refund - FY 98 | \$ 7,310,027 | \$ 22,035,023 | (Inc. In NAP) | \$ 4,623,277 | \$ - | \$ 33,968,327 | \$ - |
| TOTALS FY 96-98 | Bus. Facility | Ent. Zone | Development | Research | Build | Brwnfd-Remedtn | Brwnfd-EZ |
| Credits Authorized - FY 96 - 98 | \$ 17,537,524 | \$ 172,244,822 | \$ 2,462,500 | \$ 23,369,522 | \$ 39,158,834 | \$ 254,773,002 | \$ 2,750,000 |
| Total tax credits Issued - FY 96-98 | \$ 17,537,524 | \$ 172,244,822 | \$ 1,350,000 | \$ 23,679,642 | \$ - | \$ 214,811,788 | \$ - |
| Total tax credits redeemed - FY 96-98 | \$ 14,912,918 | \$ 45,981,977 | (Inc. In NAP) | \$ 10,259,412 | \$ - | \$ 71,154,307 | \$ - |
| Percent redeemed - FY 96-98 | 85% | 27% | (Inc. In NAP) | 43% | 0% | 33% | 0% |
| Total redeemed, Inc. Mod., Refund - 96-98 | \$ 14,912,918 | \$ 58,464,538 | (Inc. In NAP) | \$ 10,259,412 | \$ - | \$ 81,636,868 | \$ - |
| St. Louis area and Jackson County FY - 96-98 | Bus. Facility | Ent. Zone | Development | Research | Build | Brwnfd-Remedtn | Brwnfd-EZ |
| Total STL area tax credits Authorized - FY 96-98 | \$ 8,821,193 | \$ 16,546,063 | \$ - | n/a | \$ - | \$ 25,367,256 | \$ 2,000,000 |
| STL percent Issued to total Authorized FY 96-98 | 50% | 10% | 0% | 0% | 0% | 10% | 100% |
| Est. STL redeemed, Inc. Mod, Refund FY 96-98 | \$ 7,501,043 | \$ 5,424,084 | n/a | n/a | \$ - | \$ 12,925,107 | \$ - |
| Total KC area tax credits Authorized - FY 96-98 | \$ 1,016,057 | \$ 20,014,631 | \$ 250,000 | n/a | \$ - | \$ 21,280,688 | \$ - |
| KC percent Issued to total Authorized FY 96-98 | 6% | 12% | 10% | 0% | 0% | 8% | 0% |
| Est. KC redeemed, Inc. Mod, Refund FY 96-98 | \$ 863,997 | \$ 6,581,116 | n/a | n/a | \$ - | \$ 7,425,113 | \$ - |

Missouri Tax Credits, FY-96-98

| Program Descriptions | Bus. Facility | Ent. Zone | Development | Research | Build | | Brwnfd-Remedt | Brwnfd-EZ |
|---|------------------|---------------------|--------------------|----------------|---------------|---------------|--------------------|---------------------|
| Beneficiary Type | Business | Business | Business | Business | Business | | Business | Business |
| Approval Type | Formula | Formula | Discretionary | Formula | Discretionary | | Discretionary | Discretionary |
| Funding Limit | None | None | \$4 mil/year | \$10 mil./year | \$75 mil. Cum | | None | None |
| Purpose | Competitive | Competitive | Competitive | Competitive | Competitive | | Rededelopment | Redevelopment |
| Administrator/Section | Straub-Incentive | Straub-Incentive | Mueller-Incentives | Hirst-BD | Downing-Incmt | | Stuckey-Incentives | Stuckey-Incentives |
| Distribution of Tax Credits (timing) | annual - 10 yrs. | annual-up to 10 yrs | one-time | annual- 3yrs | equally-term | | one-time | annual-up to 10 yrs |
| Sellable, Refundable | None | Max.\$75k refund | Sellable | None | Refundable | | Sellable | Max. \$75k refund |
| Carry forward, backward (#years) | None | None | 5 years | 5 fwd | n/a | | 20 years | None |
| FY - 99 Projected | Bus. Facility | Ent. Zone | Development | Research | Build | | Brwnfd-Remedt | Brwnfd-EZ |
| Credits Authorized - FY 99 Projected | 6,499,046 | 59,583,210 | \$ 3,500,000 | \$ 10,000,000 | \$ 15,000,000 | \$ 94,582,256 | \$ 10,000,000 | \$ 15,000,000 |
| Credits Issued - FY-99 Projected | \$ 6,499,046 | \$ 59,583,210 | \$ 2,800,000 | \$ 10,000,000 | \$ 3,987,458 | \$ 82,869,714 | \$ 622,593 | \$ 2,250,000 |
| Percent credits redeemed of issued- FY 99 Projected | 85% | 27% | 50% | 43% | 25% | 34% | 50% | 27% |
| Credits Redeemed - FY 99 Projected | \$ 5,526,421 | \$ 15,906,179 | \$ 1,400,000 | \$ 4,332,587 | \$ 996,865 | \$ 28,162,052 | \$ 311,297 | \$ 600,654 |
| Total redeem, Inc.Mod., Refund - FY 99 Proj. | \$ 5,526,421 | \$ 17,906,179 | \$ 1,400,000 | \$ 4,332,587 | \$ 3,987,458 | \$ 33,152,645 | \$ 311,297 | \$ 600,654 |

Missouri Tax Credits, FY-96-98

| FY - 96 | Com. Bank | Historic | | Capital SBIC | CapCo | Seed Cap |
|--|------------|-----------|--------------|--------------|----------------|------------|
| Credits Authorized - FY 96 | \$ 54,000 | n/a | \$ 54,000 | \$ 725,583 | n/a | \$ 81,900 |
| Credits Issued - FY 96 | \$ 54,000 | n/a | \$ 54,000 | \$ 725,583 | n/a | \$ 81,900 |
| Credits Authorized - FY 96 - STL area | n/a | n/a | \$ - | n/a | n/a | n/a |
| Credits Authorized - FY 96 - KC area | n/a | n/a | \$ - | n/a | n/a | n/a |
| Percent credits redeemed of issued- FY 96 | 37% | n/a | 37% | 53% | n/a | 581% |
| Credits Redeemed - FY 96 | \$ 19,963 | n/a | \$ 19,963 | \$ 388,012 | n/a | \$ 475,574 |
| Total redeemed, Inc. Mod., Refund - FY 96 | \$ 19,963 | n/a | \$ 19,963 | \$ 388,012 | n/a | \$ 475,574 |
| FY - 97 | Com. Bank | Historic | | Capital SBIC | CapCo | Seed Cap |
| Credits Authorized - FY 97 | \$ 7,758 | n/a | \$ 7,758 | \$ 823,136 | \$ 50,000,000 | \$ 18,600 |
| Credits Issued - FY-97 | \$ 24,600 | n/a | \$ 24,600 | \$ 897,339 | \$ 50,000,000 | \$ 30,930 |
| Credits Authorized - FY 97 - STL area | n/a | n/a | \$ - | n/a | \$ 20,000,000 | |
| Credits Authorized - FY 97 - KC area | n/a | n/a | \$ - | n/a | \$ 12,500,000 | |
| Percent credits redeemed of issued - FY 97 | 61% | n/a | 61% | 66% | 0% | 100% |
| Credits Redeemed - FY 97 | \$ 14,989 | n/a | \$ 14,989 | \$ 595,191 | \$ - | \$ 30,930 |
| Total redeemed, Inc. Mod., Refund - FY 97 | \$ 14,989 | n/a | \$ 14,989 | \$ 595,191 | \$ - | \$ 30,930 |
| FY - 98 | Com. Bank | Historic | | Capital SBIC | CapCo | Seed Cap |
| Credits Authorized - FY 98 | \$ 159,677 | \$ 24,650 | \$ 7,434,327 | \$ 2,838,032 | \$ 50,000,000 | \$ 204,151 |
| Credits Issued - FY-98 | \$ 159,677 | \$ 24,650 | \$ 184,327 | \$ 2,838,032 | \$ 50,000,000 | \$ 204,151 |
| Credits Authorized - FY 98 - STL area | n/a | n/a | \$ 6,500,000 | n/a | \$ 20,000,000 | n/a |
| Credits Authorized - FY 98 - KC area | n/a | n/a | \$ - | n/a | \$ 12,500,000 | n/a |
| Percent credits redeemed of issued - FY 98 | 7% | 0% | \$ 0 | 30% | 10% | 100% |
| Credits Redeemed - FY 98 | \$ 11,050 | \$ - | \$ 11,050 | \$ 842,717 | \$ 5,000,000 | \$ 204,151 |
| Total redeemed, Inc. Mod., Refund - FY 98 | \$ 11,050 | \$ - | \$ 11,050 | \$ 842,717 | \$ 5,000,000 | \$ 204,151 |
| TOTALS FY 96-98 | Com. Bank | Historic | | Capital SBIC | CapCo | Seed Cap |
| Credits Authorized - FY 96 - 98 | \$ 221,435 | \$ 24,650 | \$ 7,496,085 | \$ 4,386,751 | \$ 100,000,000 | \$ 304,651 |
| Total tax credits Issued - FY 96-98 | \$ 238,277 | \$ 24,650 | \$ 262,927 | \$ 4,460,954 | \$ 100,000,000 | \$ 316,981 |
| Total tax credits redeemed - FY 96-98 | \$ 46,002 | \$ - | \$ 46,002 | \$ 1,825,920 | \$ - | \$ 710,655 |
| Percent redeemed - FY 96-98 | 19% | 0% | 17% | 41% | 0 | 224% |
| Total redeemed, Inc. Mod., Refund - 96-98 | \$ 46,002 | \$ - | \$ 46,002 | \$ 1,825,920 | \$ - | \$ 710,655 |
| St. Louis area and Jackson County FY- 96-98 | Com. Bank | Historic | | Capital SBIC | CapCo | Seed Cap |
| Total STL area tax credits Authorized - FY 96-98 | n/a | n/a | \$ 6,500,000 | n/a | \$40,000,000 | n/a |
| STL percent issued to total Authorized FY 96-98 | 0% | 0% | 87% | 0% | 40% | 0% |
| Est. STL redeemed, Inc. Mod, Refund FY 96-98 | n/a | n/a | \$ - | n/a | \$ - | n/a |
| Total KC area tax credits Authorized - FY 96-98 | n/a | n/a | \$ - | n/a | \$25,000,000 | n/a |
| KC percent issued to total Authorized FY 96-98 | 0% | 0% | 0% | 0% | 25% | 0% |
| Est. KC redeemed, Inc. Mod, Refund FY 96-98 | n/a | n/a | \$ - | n/a | - | n/a |

Missouri Tax Credits, FY-96-98

| Program Descriptions | Com. Bank | Historic | 10 year fwd | Capital SBIC | CapCo | Seed Cap |
|---|---------------|----------------|---------------|---------------|-----------------|---------------|
| Beneficiary Type | Community | Bus & Com | | Business | Business | Business |
| Approval Type | Discretionary | Formula | | Formula | Formula | Formula |
| Funding Limit | \$5 mil. Cum | None | | \$5 mil. Cum. | \$140 mil. Cum. | none |
| Purpose | Redevelopmt | Redevelopment | | Gap Finance | Venture Capital | Gap Finance |
| Administrator/Section | Helmericks-CD | Perry-CD | | Hirst-BD | Hirst-BD | Hirst-BD |
| Distribution of Tax Credits (timing) | one-time | one-time | | one-time | equally 10 yrs. | one-time 3yrs |
| Sellable, Refundable | Sellable | Sellable | | Sellable | Sellable-Ins Co | Sellable |
| Carry forward, backward (#years) | 5 years fwd | 3 back, 10 fwd | | 10 year fwd | Unlimited fwd | 5 yrs. Fwd |
| FY - 99 Projected | Com. Bank | Historic | 10 year fwd | Capital SBIC | CapCo | Seed Cap |
| Credits Authorized - FY 99 Projected | \$ 100,000 | \$ 15,000,000 | \$ 40,100,000 | \$ 1,500,000 | \$ 40,000,000 | \$ 500,000 |
| Credits Issued - FY-99 Projected | \$ 80,000 | \$ 15,000,000 | \$ 17,952,593 | \$ 1,500,000 | \$ 10,000,000 | \$ 500,000 |
| Percent credits redeemed of issued- FY 99 Projected | 85% | 85% | 76% | 80% | 100% | 80% |
| Credits Redeemed - FY 99 Projected | \$ 68,000 | \$ 12,750,000 | \$ 13,729,951 | \$ 1,200,000 | \$ 10,000,000 | \$ 400,000 |
| Total redeem, Inc.Mod., Refund - FY 99 Proj. | \$ 68,000 | \$ 12,750,000 | \$ 13,729,951 | \$ 1,200,000 | \$ 10,000,000 | \$ 400,000 |

Missouri Tax Credits, FY-96-98

| FY - 96 | Incubator | Youth Opp | Neigh. Asst. | MDFB Inf. | |
|---|---------------------|-------------------|---------------------|----------------------|------------------------------------|
| Credits Authorized - FY 96 | \$ 807,483 | \$ 96,250 | n/a | \$ 12,755,631 | \$ 2,379,000 \$ 15,134,631 |
| Credits Issued - FY 96 | \$ 807,483 | \$ 96,250 | n/a | \$ 8,686,084 | \$ 2,379,000 \$ 11,065,084 |
| Credits Authorized - FY 96 - STL area | \$ - | n/a | n/a | \$ 5,072,235 | n/a \$ 5,072,235 |
| Credits Authorized - FY 96 - KC area | \$ - | n/a | n/a | \$ 1,667,563 | n/a \$ 1,667,563 |
| Percent credits redeemed of issued - FY 96 | 107% | 157% | n/a | 105% | 160% 116% |
| Credits Redeemed - FY 96 | \$ 863,586 | \$ 151,250 | n/a | \$ 9,077,248 | \$ 3,797,597 \$ 12,874,845 |
| Total redeemed, Inc. Mod., Refund - FY 96 | \$ 863,586 | \$ 151,250 | n/a | \$ 9,077,248 | \$ 3,797,597 \$ 12,874,845 |
| FY - 97 | Incubator | Youth Opp | Neigh. Asst. | MDFB Inf. | |
| Credits Authorized - FY 97 | \$ 50,841,736 | \$ 10,000 | \$ 4,967,505 | \$ 17,805,466 | \$ 7,720,000 \$ 30,492,971 |
| Credits Issued - FY-97 | \$ 50,928,269 | \$ 20,000 | \$ 1,445,747 | \$ 10,123,190 | \$ 5,628,000 \$ 17,196,937 |
| Credits Authorized - FY 97 - STL area | \$ 20,000,000 | n/a | \$ 1,873,543 | \$ 5,533,319 | \$ 417,000 \$ 7,823,862 |
| Credits Authorized - FY 97 - KC area | \$ 12,500,000 | n/a | \$ 1,495,827 | \$ 2,613,538 | \$ 2,435,000 \$ 6,544,365 |
| Percent credits redeemed of issued - FY 97 | 1% | 391% | 0% | 77% | 92% 75% |
| Credits Redeemed - FY 97 | \$ 626,121 | \$ 78,211 | \$ - | \$ 7,817,297 | \$ 5,158,724 \$ 12,976,021 |
| Total redeemed, Inc. Mod., Refund - FY 97 | \$ 626,121 | \$ 78,211 | \$ - | \$ 7,817,297 | \$ 5,158,724 \$ 12,976,021 |
| FY - 98 | Incubator | Youth Opp | Neigh. Asst. | MDFB Inf. | |
| Credits Authorized - FY 98 | \$ 53,042,183 | \$ 24,250 | \$ 3,791,354 | \$ 11,299,661 | \$ 41,720,000 \$ 56,811,015 |
| Credits Issued - FY-98 | \$ 53,042,183 | \$ 24,250 | \$ 483,273 | \$ 10,099,927 | \$ 26,951,000 \$ 37,534,200 |
| Credits Authorized - FY 98 - STL area | \$ 20,000,000 | n/a | \$ 1,575,379 | \$ 3,174,320 | \$ 25,725,000 \$ 30,474,699 |
| Credits Authorized - FY 98 - KC area | \$ 12,500,000 | n/a | \$ 943,117 | \$ 1,334,736 | \$ 1,193,000 \$ 3,470,853 |
| Percent credits redeemed of issued - FY 98 | 11% | 171% | 87% | 98% | 52% 65% |
| Credits Redeemed - FY 98 | \$ 6,046,868 | \$ 41,408 | \$ 422,471 | \$ 9,906,001 | \$ 13,994,084 \$ 24,322,556 |
| Total redeemed, Inc. Mod., Refund - FY 98 | \$ 6,046,868 | \$ 41,408 | \$ 422,471 | \$ 9,906,001 | \$ 13,994,084 \$ 24,322,556 |
| TOTALS FY 96-98 | Incubator | Youth Opp | Neigh. Asst. | MDFB Inf. | |
| Credits Authorized - FY 96 - 98 | \$ 104,691,402 | \$ 130,500 | \$ 8,758,859 | \$ 41,860,758 | \$ 51,819,000 \$ 102,438,617 |
| Total tax credits Issued - FY 96-98 | \$ 104,777,935 | \$ 140,500 | \$ 1,929,020 | \$ 28,909,181 | \$ 34,958,000 \$ 65,796,201 |
| Total tax credits redeemed - FY 96-98 | \$ 2,536,575 | \$ 270,869 | \$ 422,471 | \$ 26,800,546 | \$ 22,950,405 \$ 50,173,422 |
| Percent redeemed - FY 96-98 | 2% | 193% | 22% | 93% | 66% 76% |
| Total redeemed, Inc. Mod., Refund - 96-98 | \$ 2,536,575 | \$ 270,869 | \$ 422,471 | \$ 26,800,546 | \$ 22,950,405 \$ 50,173,422 |
| St. Louis area and Jackson County FY-96-98 | Incubator | Youth Opp | Neigh. Asst. | MDFB Inf. | |
| Total STL area tax credits Authorized - FY 96-98 | \$ 40,000,000 | n/a | \$ 3,448,922 | \$ 13,779,874 | \$ 26,142,000 \$ 43,370,796 |
| STL percent issued to total Authorized FY 96-98 | 38% | 0% | 39% | 33% | 50% 42% |
| Est. STL redeemed, Inc. Mod, Refund FY 96-98 | \$ - | n/a | \$ 166,354 | \$ 8,822,300 | \$ 11,578,176 \$ 20,566,829 |
| Total KC area tax credits Authorized - FY 96-98 | \$ 25,000,000 | n/a | \$ 2,438,944 | \$ 5,615,837 | \$ 3,628,000 \$ 11,682,781 |
| KC percent issued to total Authorized FY 96-98 | 24% | 0% | 28% | 13% | 7% 11% |
| Est. KC redeemed, Inc. Mod, Refund FY 96-98 | \$ - | n/a | 117,639 | 3,595,432 | 1,606,825 \$ 5,319,896 |

Missouri Tax Credits, FY-96-98

| Program Descriptions | | Incubator | Youth Opp | Neigh. Asst. | MDFB Inf. | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Beneficiary Type | | Business | Community | Community | Bus & Com | |
| Approval Type | | Discretionary | Discretionary | Discretionary | Discretionary | |
| Funding Limit | | \$500,000/yr | \$6 mil./year | \$18 ml./yr | \$10ml/yr | |
| Purpose | | Comm. Dev. | Com. Dev. | Com. Dev. | ComDev/Comp. | |
| Administrator/Section | | Hirst-BD | Rowles-CD | Grugen-CD | Miserez-MDFB | |
| Distribution of Tax Credits (timing) | | one-time | one-time | one-time | one-time | |
| Sellable, Refundable | | | None | None | Sellable | |
| Carry forward, backward (#years) | | | 10 years fwd | 10 yrs. Fwd. | 5 years fwd | |
| FY - 99 Projected | | Incubator | Youth Opp | Neigh. Asst. | MDFB Inf. | |
| Credits Authorized - FY 99 Projected | \$ 42,000,000 | \$ 100,000 | \$ 5,000,000 | \$ 11,764,937 | \$ 15,000,000 | \$ 31,764,937 |
| Credits Issued - FY-99 Projected | \$ 12,000,000 | \$ 100,000 | \$ 3,750,000 | \$ 8,124,905 | \$ 11,250,000 | \$ 23,124,905 |
| Percent credits redeemed of issued- FY 99 Projected | 97% | 100% | 40% | 90% | 80% | 77% |
| Credits Redeemed - FY 99 Projected | \$ 11,600,000 | \$ 100,000 | \$ 1,500,000 | \$ 7,312,415 | \$ 9,000,000 | \$ 17,812,415 |
| Total redeem, Inc.Mod., Refund - FY 99 Proj. | \$ 11,600,000 | \$ 100,000 | \$ 1,500,000 | \$ 7,312,415 | \$ 9,000,000 | \$ 17,812,415 |

Missouri Tax Credits, FY-96-98

| FY - 96 | NJ Training | Total-existing. |
|---|----------------------|------------------------|
| Credits Authorized - FY 96 | \$ 4,515,000 | \$ 79,802,678 |
| Credits Issued - FY 96 | \$ 4,181,000 | \$ 74,286,611 |
| Credits Authorized - FY 96 - STL area | \$ 2,385,000 | \$ 14,382,115 |
| Credits Authorized - FY 96 - KC area | \$ 2,586,000 | \$ 8,956,689 |
| Percent credits redeemed of issued - FY 96 | 141% | 57% |
| Credits Redeemed - FY 96 | \$ 5,881,504 | \$ 42,613,038 |
| Total redeemed, Inc. Mod., Refund - FY 96 | \$ 5,881,504 | \$ 48,322,490 |
| FY - 97 | NJ Training | Total-existing. |
| Credits Authorized - FY 97 | \$ 11,333,560 | \$ 182,834,252 |
| Credits Issued - FY-97 | \$ 4,355,440 | \$ 142,238,008 |
| Credits Authorized - FY 97 - STL area | \$ 1,675,000 | \$ 38,450,404 |
| Credits Authorized - FY 97 - KC area | \$ 806,000 | \$ 25,003,175 |
| Percent credits redeemed of issued - FY 97 | 159% | 28% |
| Credits Redeemed - FY 97 | \$ 6,924,397 | \$ 39,896,763 |
| Total redeemed, Inc. Mod., Refund - FY 97 | \$ 6,924,397 | \$ 45,236,928 |
| FY - 98 | NJ Training | Total-existing. |
| Credits Authorized - FY 98 | \$ 18,708,160 | \$ 241,318,896 |
| Credits Issued - FY-98 | \$ 3,550,000 | \$ 181,210,672 |
| Credits Authorized - FY 98 - STL area | \$ - | \$ 66,465,533 |
| Credits Authorized - FY 98 - KC area | \$ 2,590,000 | \$ 29,985,605 |
| Percent credits redeemed of issued - FY 98 | 244% | 37% |
| Credits Redeemed - FY 98 | \$ 8,669,495 | \$ 67,875,901 |
| Total redeemed, Inc. Mod., Refund - FY 98 | \$ 8,669,495 | \$ 73,018,296 |
| TOTALS FY 96-98 | NJ Training | Total-existing. |
| Credits Authorized - FY 96 - 98 | \$ 34,556,720 | \$ 503,955,826 |
| Total tax credits Issued - FY 96-98 | \$ 12,086,440 | \$ 397,735,291 |
| Total tax credits redeemed - FY 96-98 | \$ 21,475,396 | \$ 145,385,702 |
| Percent redeemed - FY 96-98 | 178% | 37% |
| Total redeemed, Inc. Mod., Refund - 96-98 | \$ 21,475,396 | \$ 155,868,263 |
| St. Louis area and Jackson County FY-96-98 | NJ Training | Total-existing. |
| Total STL area tax credits Authorized - FY 96-98 | \$ 4,080,000 | \$ 119,298,052 |
| STL percent issued to total Authorized FY 96-98 | 12% | 24% |
| Est. STL redeemed, Inc. Mod, Refund FY 96-98 | \$ 2,523,101 | \$ 36,015,038 |
| Total KC area tax credits Authorized - FY 96-98 | \$ 5,982,000 | \$ 63,945,469 |
| KC percent issued to total Authorized FY 96-98 | 17% | 13% |
| Est. KC redeemed, Inc. Mod, Refund FY 96-98 | \$ 3,717,535 | \$ 16,462,544 |

Missouri Tax Credits, FY-96-98

| Program Descriptions | NJ Training | | Distd. Com. | Trans. Devl. | Wine/Grape | Film | Mutual Fnd | Indiv. Trng | | | |
|---|--------------------|----------------|--------------|---------------|-------------|---------------|--------------|--------------|--------------|----------------|--|
| Beneficiary Type | Business | | Business | Bus/Com | Business | Business | Business | Business | | | |
| Approval Type | Formula | | Formula | Discretionary | Formula | Discretionary | Formula | Formula | | | |
| Funding Limit | \$35 mil. outstndg | | \$10 mil./yr | \$10 mil./yr. | None | \$1 mil./yr. | None | \$6 mil/yr | | | |
| Purpose | Training | | Redevelopmt | Redevelopmt | Incentive | Competitive | Incentive | Training | | | |
| Administrator/Section | Deem-JDT | | Stuckey-Inc | Sappfd-Inc | Hlrst-BD | Straub-Inc | Straub-Inc | Deem-JDT | | | |
| Distribution of Tax Credits (timing) | equally - 6-8 yrs. | | annual-3ys | one time | annual-5yrs | one time | annual | one time | | | |
| Sellable, Refundable | n/a | | Sellable | Sellable | None | Sellable | n/a | Sellable | | | |
| Carry forward, backward (#years) | n/a | | 5 yrs fwd | 5 yrs fwd | None | 5 yrs fwd | n/a | 5 yrs fwd | | | |
| FY - 99 Projected | NJ Training | Total-existng. | Distd. Com. | Trans. Devl. | Wine/Grape | Film | Mutual Fnd | Indiv. Trng | | | |
| Credits Authorized - FY 99 Projected | \$ 15,000,000 | \$ 223,447,193 | \$ 3,000,000 | \$ 2,000,000 | \$ 300,000 | \$ 500,000 | n/a | \$ 1,500,000 | \$ 7,300,000 | \$ 230,747,193 | |
| Credits Issued - FY-99 Projected | \$ 10,000,000 | \$ 145,947,212 | \$ 1,500,000 | \$ 1,500,000 | \$ 200,000 | \$ 200,000 | n/a | \$ 1,500,000 | \$ 4,900,000 | \$ 150,847,212 | |
| Percent credits redeemed of issued- FY 99 Projected | 100% | 56% | 33% | 33% | 0% | 0% | n/a | 33% | 31% | 56% | |
| Credits Redeemed - FY 99 Projected | \$ 10,000,000 | \$ 81,304,417 | \$ 500,000 | \$ 500,000 | \$ - | \$ - | n/a | \$ 500,000 | \$ 1,500,000 | \$ 82,804,417 | |
| Total redeem, Inc.Mod., Refund - FY 99 Proj. | \$ 10,000,000 | \$ 86,295,011 | \$ 500,000 | \$ 500,000 | \$ - | \$ - | \$ 4,000,000 | \$ 500,000 | \$ 5,500,000 | \$ 91,795,011 | |